



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2012

Prepared by the

CITY OF DESOTO

FINANCE DEPARTMENT

Edena J. Atmore, CPA Managing Director

CITY COUNCIL

Carl O. Sherman, Mayor

Denise Valentine, Mayor Pro-Tem James Zander, Council Member

Sandy Respess, Council Member Deshaundra Lockhart, Council Member

Patricia Ledbetter, Council Member Curtistene McCowan, Council Member

CITY MANAGER

Tarron Richardson, Ph.D

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${\bf CITY\ OF\ DESOTO,\ TEXAS}$

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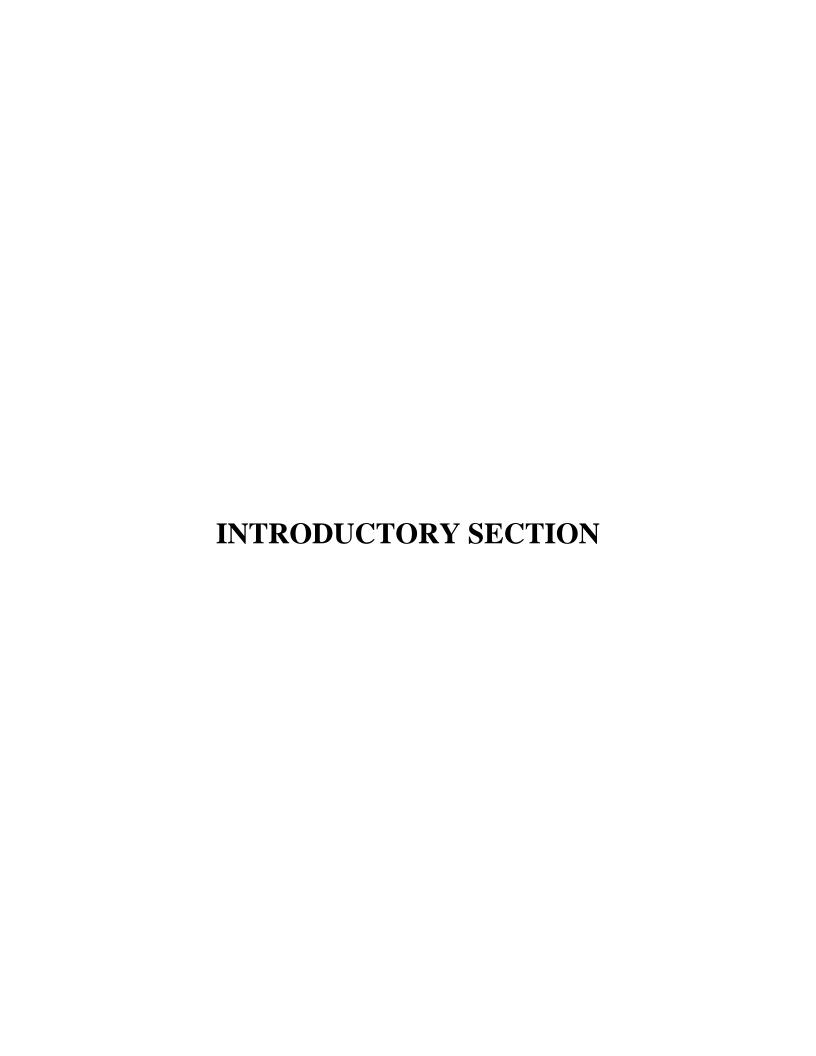
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March 19, 2013

To the Citizens of the City of DeSoto, Texas

State law requires that every municipality publish within six (6) months of the close of each fiscal year a complete set of audited financial statements, to include the auditor's opinion on the statements. This report is published to fulfill that requirement for the fiscal year that ended Thursday, September 30, 2012.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Pattillo, Brown & Hill, LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the City of Desoto's financial statements for the year that ended Thursday, September 30, 2012. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complement this letter of transmittal and should be read in conjunction with the aforesaid document.

Profile

Located in the Best Southwest portion of Dallas County, the City of DeSoto is situated just minutes from downtown Dallas. Bordering I-35 on its eastern border and Highway 67 on its northern boundary, the City covers approximately 21 square miles. The City serves an estimated 2012 population of 49,047. The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, and is a home-rule city operating under a Council/Manager form of government. The Council is comprised of the Mayor and six Council members, who enact local legislation, adopt budgets, determine policies, and appoint the City secretary, City attorney and Judge of the municipal court. The City Manager, appointed by City Council, is the chief administrative officer for the City and is responsible for the daily management of the City. Major services provided under general government and enterprise functions are: public safety (police and fire protection), emergency ambulance services, construction and maintenance of streets, water and sewer services, parks and recreation, library services and general administrative services.

Accounting System and Budgetary Control

One of the objectives of the City's financial accounting system is to provide adequate internal controls. Internal controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. We believe that the City's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise activities are maintained on the accrual basis.

The government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets and statement of activities.

<u>Budgetary Controls</u> – The budgetary process begins each year with the preparation of both current and proposed revenue estimates by the City's administrative and financial management staff and expenditure estimates provided by each City department. Budgets are reviewed by the administrative and financial management staff which consists of the City Manager's office, Finance and Department Managers. The City Manager makes final decisions and submits a recommended budget to the City Council. The proposed budget is reviewed by the City Council, a process which includes a Chartermandated public hearing, in addition to work sessions which are open to the public. The City Charter requires adoption of the City budget at least 10 days prior to the beginning of the fiscal year.

The objective of the budgetary controls maintained by the City is to ensure compliance with legal provisions embodied in the annual budget approved by the City Council. Activities of the general fund, water and sewer fund, and all other funds are included in the annual budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amounts) is established by departments within the individual fund. The City Manager is authorized to transfer budgeted amounts between line items and departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Monthly departmental expenditure reports are generated by an automated accounting system and provide expenditure totals and encumbrances at the line-item level for the most recently completed month as well as the year-to-date total, and an actual versus budgeted rate of expenditure. Major expenditure requests are approved by the City Manager prior to the encumbrance of funds.

Relevant Financial Policies

The City has established a policy to have a balanced budget and to maintain a reserve account. In fiscal year 2012 The General Fund accomplished this by having a fund balance of \$9,294,115 which exceeds reserve requirements of 60 days.

The City also has a long range planning policy to identify major issues when developing its fiscal year budget. A two-year budget analysis of all City funds is developed to provide an understanding of the long term impact of budget decisions. The fiscal year 2013 budget was prepared along with a planning budget for fiscal year 2014.

The City's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. The City's investment strategies include using cash flow analysis to purchase securities. This practice lessens the impact which rising interest rates have on the valuation changes of the portfolio. Investments in the deferred compensation plans are held by the third party plan administrators. The investment policy is annually updated and approved by the Council in compliance with the Texas Public Funds Investment Act.

Local Economy

Major industries located in the City of DeSoto include manufacturers of gas turbines, a publishing company, a transportation company, a health care provider, as well as a distributor of retail items and several retail grocery chains. These industries employ over 1,800 employees.

The City's unemployment rate for 2012 is an average of 7.29%, which is slightly above the unemployment rate for Dallas County of 6.7%. The City of DeSoto benefits from its proximity to the Dallas-Fort Worth metroplex and major transportation corridors with its location twelve (12) miles south of Dallas. The close proximity to job opportunities in Dallas, Fort Worth and the Mid-Cities continues to contribute to growth in the City. Its estimated population of over 49,000 has grown a notable 30% since 2000, with an increase of 24% in the number of households during the same time. There is room for further development within the City's 21 square miles, since the City is only 60-65% built out.

In fiscal year 2012, The City experienced a decrease in taxable assessed valuation by .53% since fiscal year 2011. Not unlike other cities in the Dallas-Fort Worth area, the City experienced a slight decline in residential values. However, the City experienced an increase in building permits and a slight decrease in sales tax for fiscal year 2012.

Long-term Financial Planning

The City has historically maintained solid General Fund balances. In fiscal year 2012, fund balance for the General Fund was approximately \$9.29 million or roughly 33% of spending. The City continues to respond proactively to the downturn in the economy by implementing budget cuts sufficient to offset the revenue loss and does not expect to utilize reserves for recurring operating expenditures. The City is also utilizing extensive planning and maintaining tight budgetary measures to balance its operations. The sales tax receipts are expected to continue increase slightly as the City continues to provide incentives for retail and business operations that come to the City.

Because of the City's proximity to Interstate 35 East and Interstate 20, businesses are recognizing DeSoto as one of the region's hot spots for growth. The City is committed to supporting new and expanding companies by creatively customizing incentive packages based on individual business needs.

The City also has more than 400 acres of land that are available for industrial and commercial development within the DeSoto Eagle Industrial and Business Park. The Hillwood Crossroads Trade Center in the Industrial Park offers 1.8 million square feet of build-to-suit distribution or light industrial space for lease at Centre Park Blvd and Interstate 35 East.

Major Initiatives

The 2011-2012 fiscal year included initiatives such as:

- Maintain the current level of services provided by the Police and Fire Department, as well as the Division of Code Enforcement;
- Consider a business plan and design for a Heliport facility in Eagle Industrial Park;
- Increase the value of commercial assets through new development and redevelopment; and
- Develop a regional economic development vehicle to attract major employers to the Best Southwest region.

Awards and Acknowledgements

Awards – The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting for the fiscal year that ended Friday, September 30, 2011. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement for Excellence, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose content conform to program standards. Such Comprehensive Annual Financial Reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of DeSoto has received a Certificate of Achievement for the last 23 consecutive fiscal years ended September 30. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the City's staff. Appreciation is extended to Edena Atmore and City staff who assisted as well as contributed to its preparation. The Mayor and the City Council are also commended for their willingness to participate in the strategic planning process for financial operations.

Respectfully submitted,

Tarron Richardson, Ph.D.

City Manager

Edena J. Atmore, CPA

Managing Director of Financial Services

Certificate of Achievement for Excellence in Financial Reporting

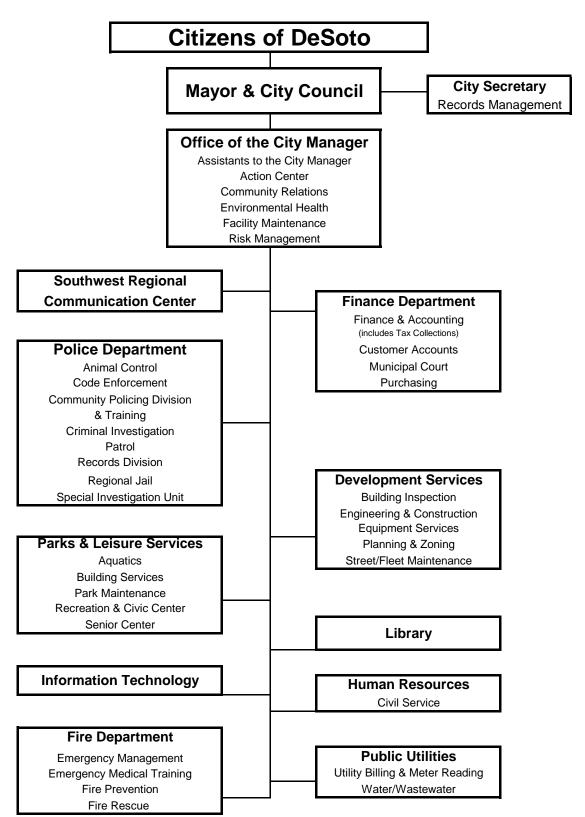
Presented to

City of DeSoto Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.





City Officials

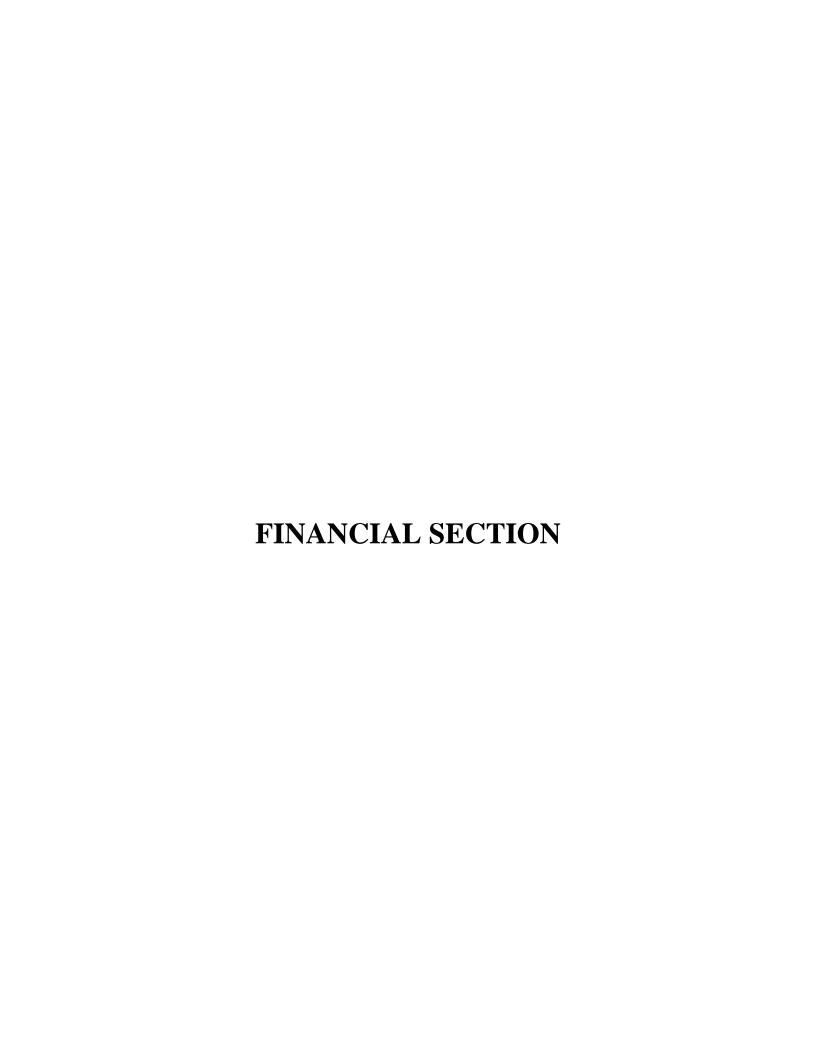
City Council

Carl O. Sherman								
Mayor								
Pla	ce One							
Patricia Ledbetter	Denise Valentine							
Place Two	Mayor Pro Tem							
	Place Three							
Deshaundra Lockhart	Sandy Respess							
Place Four	Place Five							
Curtistene McCowen	James Zander							
Place Six	Place Seven							
Joe Gorfida								
City Attorney								

City Employees

Tarron J. Richardson, PhD.								
City Manager								
Tracie Hlavinka	Lora Stallings							
Assistant to the City Manager	Assistant to the City Manager							
Edena J. Atmore, CPA	Isom Cameron							
Managing Director	Managing Director							
Financial Services	Public Utilities							
Robert Lee	Lucile Dade							
Interim Police Chief	Managing Director							
	Library Services							
Fred Hart	Kathleen Shields							
Fire Chief	Managing Director							
	Human Resources							
Renee Johnson	Tom Johnson							
Managing Director	Managing Director							
Parks & Leisure Services	Development Services							
Kathy Jones	Laura Hallmark							
Community Relations Manager	City Secretary							
Vacant								
Managing Director								
S.W.R.C.C.								









INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council City of DeSoto, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of DeSoto, Texas (the "City"), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of DeSoto, Texas' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of DeSoto, Texas, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2013, on our consideration of the City of DeSoto, Texas' internal control over financial reporting and on our tests over its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information and the schedule of funding progress on pages 3 through 12 and pages 57 through 59, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of DeSoto, Texas' financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements and schedules, and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

March 19, 2013

Patillo, Brown & Hill, L.L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

As management of the City of DeSoto (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with the additional information that we have furnished in our letter of transmittal, which can be found on pages i - iv of this report, and the financial statements which follow this section.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the 2012 fiscal year by \$166,788,832 (net assets). Of this amount, \$20,763,612 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of fiscal year 2012, the City's governmental funds reported combined ending fund balances of \$21,583,526, a decrease of \$1,817,147 from the prior year. Approximately 40% of this total amount is unassigned fund balance.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$8,684,056 or 30% of total General Fund expenditures.
- The City's total capital assets net of accumulated depreciation decreased by \$2,363,058. The decrease is primarily due to current year depreciation. Capital project activity decreased for 2012; therefore, capital additions did not exceed current year depreciation. Some projects were postponed for future years.
- The City's governmental and business-type activities long-term liabilities increased \$20,590,000 due to an increase in general obligation debt of \$20,590,000. The general obligation bonds were issued to fund a refunding of the series 2001, 2002, 2003 and 2005 certificate of obligations and 2001, 2002, 2004 and 2005 general obligation bonds which had an interest rate ranging from 3.5%-5.125%. The City advance refunded the bonds to reduce its total debt service payments over thirteen (13) years by \$2,349,173 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,822,043.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information in order to present how the City's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses reported in this statement for some items will only result in changes in cash flows for future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, development services, parks and leisure services, library services, human resources, financial services, and information technology. The business-type activities of the City include water and sewer, drainage systems, and sanitation operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also include the DeSoto Health Facilities Development Corporation, the DeSoto Housing Finance Corporation and the DeSoto Industrial Development Authority, Inc., which are legally separate but financially accountable to the City. A blended presentation has been used to report the financial information of these component units. That means that the component unit balances and transactions are reported in a manner similar to the balances and transactions of the primary government. Additionally, the government-wide financial statements include the DeSoto Economic Development Corporation and the DeSoto Park Development Corporation as part of its reporting entity as discretely presented component units. Discrete presentation entails reporting component unit financial data in columns separate from the financial data of the primary government. The DeSoto Economic Development Corporation and the DeSoto Park Development Corporation are legally separate entities.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The fund financial statements for governmental funds, proprietary funds and fiduciary funds can be found in the financial section of this report.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 15 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund, and Street Improvement Fund, which are considered to be major funds. Data from the other 12 governmental funds are combined into a single aggregate presentation.

The City adopts an annual appropriated budget for its general fund. The Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual is provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, drainage and sanitation operations. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for water and sewer, drainage and sanitation, all of which are considered to be major funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to the accounting used for proprietary funds. The Agency Fund is one of the City's fiduciary funds and it accounts for the funds held in an agency capacity for the Southwest Regional Communication Center. See Note 1 for additional information pertaining to fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 29 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation. Required supplementary information immediately follows the notes to the financial statements. Combining statements and budgetary comparison schedules for non-major governmental funds and component unit fund financial statements follow the section on required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September 30, 2012, the City's assets exceeded liabilities by \$166,788,832.

The largest portion of the City's net assets (86%) reflects its investment in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$20,763,612, may be used to meet the City's ongoing obligations to citizens and creditors.

As of September 30, 2012, the City is able to report positive balances in all three categories of net assets, for the government as a whole, as well as for its separate governmental and business-type activities.

CITY OF DESOTO'S NET ASSETS

	Governmen	tal Activities	Business-ty	pe Activities	Totals			
	2012	2011	2012	2012 2011		2011		
Current and other assets	\$ 29,454,056	\$ 30,303,603	\$ 23,927,693	\$ 24,806,143	\$ 53,381,749	\$ 55,109,746		
Capital assets	150,034,099	152,909,026	64,161,153	63,649,284	214,195,252	216,558,310		
Total assets	179,488,155	183,212,629	88,088,846	88,455,427	267,577,001	271,668,056		
Long-term liabilities								
outstanding	79,064,696	84,338,994	16,470,767	17,470,662	95,535,463	101,809,656		
Other liabilities	2,276,611	2,696,574	2,976,095	2,923,294	5,252,706	5,619,868		
Total liabilities	81,341,307	87,035,568	19,446,862	20,393,956	100,788,169	107,429,524		
Net assets:								
Invested in capital assets	s,							
net of related debt	85,553,558	83,839,278	57,708,884	46,444,456	143,262,442	130,283,734		
Restricted	2,762,778	2,629,370	-	-	2,762,778	2,629,370		
Unrestricted	9,830,512	9,708,413	10,933,100	21,617,015	20,763,612	31,325,428		
Total net assets	98,146,848	\$ 96,177,061	\$ 68,641,984	\$ 68,061,471	\$ 166,788,832	\$ 164,238,532		

Governmental activities. Net assets increased by \$2 million in fiscal year 2012. This is compared to a decrease of \$1.6 million in fiscal year 2011. The increase in net assets as compared to the prior year is a result of a slight increase in sales tax collection, intergovernmental revenue and charges for services. Additionally, the City made an effort to reduce expenses and maintain a normal service level to citizens.

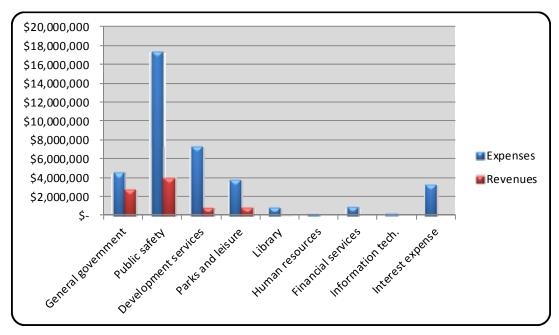
Business-type activities. Net assets increased by \$580 thousand in the current year compared to a \$2.2 million increase in fiscal year 2011. Overall, revenues exceeded total operating expenses/transfers for fiscal year 2012. Decreases in charges for services coupled with increases for operating expenses were the primary drivers for the difference in net assets as compared to prior year.

Analysis of the City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2012. Overall, the City had an increase in net assets of \$2,550,300. This is due in part to an increase in governmental charges for services and capital grants and contributions.

CITY OF DESOTO'S CHANGES IN NET ASSETS

	Governmen	tal Activities	Business-ty	pe Activities	Totals				
	2012	2011	2012	2011	2012	2011			
Revenues:									
Program revenues:									
Charges for services	\$ 4,929,664	\$ 4,410,512	\$ 21,026,197	\$ 21,398,184	\$ 25,955,861	\$ 25,808,696			
Operating grants									
and contributions	1,254,754	926,017	-	-	1,254,754	926,017			
Capital grants									
and contributions	2,450,162	402,804	15,000	158,865	2,465,162	561,669			
General revenues:									
Property taxes	20,673,781	21,392,377	-	-	20,673,781	21,392,377			
Other local taxes	9,498,834	9,042,389	-	-	9,498,834	9,042,389			
Interest income	70,204	83,020	45,782	28,799	115,986	111,819			
Miscellaneous	254,756	262,238	-	-	254,756	262,238			
Total revenues	39,132,155	36,519,357	21,086,979	21,585,848	60,219,134	58,105,205			
Expenses:									
General government	4,562,337	5,217,799	-	-	4,562,337	5,217,799			
Public safety	17,491,146	17,578,307	-	-	17,491,146	17,578,307			
Development services	7,312,154	7,788,666	-	-	7,312,154	7,788,666			
Parks and leisure services	3,844,791	3,584,536	-	-	3,844,791	3,584,536			
Library	890,239	896,501	-	-	890,239	896,501			
Human resources	197,978	139,935	-	-	197,978	139,935			
Financial services	926,892	855,547	-	-	926,892	855,547			
Information technology	280,360	294,197	-	-	280,360	294,197			
Interest on long-term debt	3,391,573	3,423,048	-	-	3,391,573	3,423,048			
Water and sewer	-	-	14,097,518	13,452,042	14,097,518	13,452,042			
Storm drainage	-	-	1,427,820	1,282,892	1,427,820	1,282,892			
Sanitation	-	-	3,246,026	2,957,452	3,246,026	2,957,452			
Total expenses	38,897,470	39,778,536	18,771,364	17,692,386	57,668,834	57,470,922			
Increase (decrease) in net asset	S								
before transfers	234,685	(3,259,179)	2,315,615	3,893,462	2,550,300	634,283			
Transfers	1,735,102	1,651,170	(1,735,102)	(1,651,170)					
Change in net assets	1,969,787	(1,608,009)	580,513	2,242,292	2,550,300	634,283			
Net assets, beginning	96,177,061	97,441,557	68,061,471	66,162,692	164,238,532	163,604,249			
Prior period adjustment		343,513		(343,513)					
Net assets, ending	\$ 98,146,848	\$ 96,177,061	\$ 68,641,984	\$ 68,061,471	\$ 166,788,832	\$ 164,238,532			

Expense and Program Revenues – Governmental Activities



Financial Analysis and Budgetary Highlights of City Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

At the end of the 2012 fiscal year, the City's governmental funds reported combined ending fund balances of \$21,583,526, a decrease of \$1,817,147 from the prior year. Approximately 40% of this total amount is available for spending at the City's discretion. The remainder of fund balance is not available for new spending because it is restricted 1) to complete street improvements and capital projects (\$7,516,190), 2) to pay debt service (\$1,603,729), and 3) for a variety of other purposes.

General Fund. The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$8,684,056, while the total fund balance was \$9,294,115. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total expenditures. Unassigned fund balance represents 30 percent of the general fund expenditures, while total fund balance represents 33 percent of that same amount.

The final budget for fiscal year 2012 reflected a \$1,128,181 drawdown of fund balance, while still providing for a sufficient reserve balance. The actual change in fund balance was an increase of \$759,000. Contributing factors was the realization of revenues \$152,020 over the budgeted amounts and overall expenditures \$1,781,231 under budgeted amounts. Key factors affecting fund balance are as follows:

- Total General Fund revenues of \$28,373,010 were increased from FY2011 by \$546,407.
 - o Property tax revenue decreased \$542,301 from FY2011 actuals.
 - o Franchise fees decreased by \$182,603, while sales tax revenue increases by \$519,505.

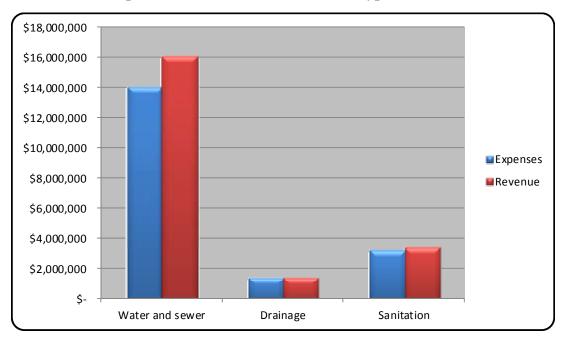
- o Intergovernmental revenue increased by \$607,545.
- o Charges for services increased by \$235,463 while Recreation service fees decreased by \$28,745.
- o Fines and forfeitures decreased by \$86,903.
- Total General Fund expenditures of \$28,476,145 were decreased from FY2011 by \$1,401,300.
 - o General government expenditures decreased by \$182,251 from FY2011.
 - o Total public safety expenditures decreased by \$541,518, primarily due to attrition.
 - o Development services expenditures decreased by \$163,092, while human resource expenditures increased by \$56,829.
 - o Non-departmental expenditures increased by \$97,730 over prior year expenditures.
 - o Parks and leisure services expenditures increase \$36,679 over FY2011 actual expenditures.
 - o Capital outlay expenditures decreased by \$1,029,492 in FY2012 while maintaining funding for various purchases and projects including eight outfitted police cruisers and a dump truck for use by development services.

The actual revenues of \$28,373,010 were more than the budgeted revenues by \$152,020. Sales tax revenue, fines and forfeitures and investment earnings did not meet the budgeted amount. Other areas such as property taxes and franchise fees, intergovernmental revenue and license and permits exceeded the budgeted amount to offset these amounts. The actual expenditures of \$28,476,145 were \$1,781,231 less than the budgeted expenditures of \$30,257,376.

Debt service fund balance increased by \$153,720 due to increase in revenues and the net effect of transfers in, the issuance of long term debt, the related premium and transfers to escrow agent for future debt service payments on refunded bonds.

The fund balance of the Street Improvement fund decreased by \$2,210,637 due to the completion of various street improvement projects in 2012 that were identified in the five-year capital improvement plan and that were part of the City's beautification projects.

Expenses and Revenues for Business-type Activities



Proprietary Funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements but in more detail.

Unrestricted net assets of the respective proprietary funds are Water and Sewer – \$8,438,232, Storm Drainage – \$1,138,672, and Sanitation – \$1,356,196. The net assets for Water and Sewer increased \$358,124; Storm Drainage increased \$37,159 and Sanitation increased \$185,230. The overall change in net assets for business-type activities increased by \$580,513 which is a decrease of \$1,661,779 from the FY2011 change in net assets of \$2,242,292. Rate increases for high volume customers increased the net asset position of the Water and Sewer Fund along with moderate rainfall and warm temperatures during the summer season. In addition, an increase in customer base improved the net asset position of the Storm Drainage Fund. Overall Utility operating revenues of \$21,026,197 reflected a decrease of \$371,987 or a decrease of 1.74% compared to FY2011. Utility operating expenses of \$18,115,030 reflected an increase of \$1,002,124 or an increase of 5.86% over FY2011. Significant increases in expenses were related to an increase in Water and Sewer personnel costs, wastewater treatment expenses and refuse collection expenses during FY2012. Overall business-type depreciation expense increased by \$99,079 of prior year.

Capital Assets

At the end of fiscal year 2012, the City had over \$214 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, and water and sewer lines. This amount represents a net decrease of approximately \$2.4 million over the amounts for the prior fiscal year.

CITY OF DESOTO'S CAPITAL ASSETS (Net of Depreciation – in thousands of dollars)

	Governmental Activities			I	Business-type Activities				Totals			
		2012		2011		2012		2011		2012		2011
Land	\$	4,216	\$	3,703	\$	945	\$	945	\$	5,161	\$	4,648
Street/Alley ROW		14,073		14,073		-		-		14,073		14,073
Construction in progress		10,584		10,658		6,715		3,688		17,299		14,346
Buildings		26,053		26,732		-		-		26,053		26,732
Infrastructure		92,619		94,997		56,333		58,741		148,952		153,738
Equipment and furniture		2,063		2,189		167		275		2,230		2,464
Capital leases	_	426	_	557	_	-	_	-	_	426	_	557
Total capital assets	\$_	150,034	\$_	152,909	\$	64,160	\$	63,649	\$_	214,194	\$_	216,558

Major capital asset events during the 2012 fiscal year include the following:

- Cockrell Hill Road Widening Project. The scope of the work included widening Cockrell Hill Road from Belt Line Road to Wintergreen Road from a two-lane asphalt road to a four-lane concrete roadway with medians, landscaping, lighting, underground drainage and meandering sidewalks. The estimated capitalized cost for this project is \$6,700,000.
- 2011 Water and Wastewater Renovation and Replacement Project. The scope of the project consisted of replacing roughly 7,000 linear feet of water mains and 5,200 linear feet of wastewater mains, as well as residential street replacement and concrete alley reconstruction. The estimated capitalized cost for this project is \$2,500,000.

- 2012 Water and Wastewater Renovation and Replacement Project. The scope of the project consisted of replacing roughly 7,000 linear feet of water mains and 5,200 linear feet of wastewater mains, as well as residential street replacement and concrete alley reconstruction. The estimated capitalized cost for this project is \$2,018,000.
- 2012 Street Reconstruction Project. The scope of work will consist pulverization of the existing asphalt, cement stabilization of the base material to a depth of 6" (inches), and the construction of a new 6" (inch) asphalt roadway. The estimated capitalized cost for this project is \$645,000.

Additional information on the City's capital assets can be found in Note 4 beginning on page 40 of this report.

Debt Administration

CITY OF DESOTO'S OUTSTANDING DEBT (in thousands of dollars)

	Governmental Activities				Business-type Activities				Totals			
	2012		2011		2012		2011		2012		2011	
General obligation	\$	54,116	\$	55,374	\$	709	\$	1,326	\$	54,825	\$	56,700
Certificates of obligation Notes payable		15,865 679		21,995 892	_	12,435		15,680	_	28,300 679		37,675 892
	\$	70,660	\$	78,261	\$	13,144	\$	17,006	\$	83,804	\$	95,267

The City has an AA rating from Fitch and an AA- rating from Standard & Poor's.

In fiscal year 2012, the City used the proceeds from the sale the 2012 series of tax exempt general obligation bonds to refund a portion of the City's outstanding series 2001, 2002, 2004 and 2005 general obligation bonds and series 2001, 2002, 2003, and 2005 certificate of obligation bonds. The 2012 series general obligation bonds are recorded as general government debt and business-type activities.

Additional information on the City's long-term debt can be found in Note 5 beginning on page 44 of this report.

Economic Factors and Next Year's Budgets and Rates

The two major financing sources for general government operations: Property Tax and Sales Tax are the major areas of focus. The increase in general government Property Tax revenue is due to the City's restructuring of its debt obligations. This resulted in a reallocation of the property tax rate to the O&M rate for the coming fiscal year. The FY 2013 budget was adopted with an O&M tax rate of \$0.5199, a \$0.00015 increase from FY 2012.

Sales Tax is the second largest revenue source. In 2012, retail spending grew and the City experienced an increase in sales tax revenue but the increase was significantly lower than budgeted revenue. For this reason the City conservatively projected a decrease in sales tax projections for FY 2013.

The estimates for Franchise Fees increased over FY 2012, reflecting a budgeted increase of \$401,858 for FY 2013. Overall, budgeted revenue in the General Fund for FY 2013 increased by \$990,138, which represents a 3.33% increase of the amount budgeted for fiscal year 2012.

The fiscal year 2013 budget provides funding for all aspects of our service delivery. This spending plan meets the objective of maintaining the current level of services.

Because the City is a service organization, a major portion of the operating budget is allocated to employee compensation and fringe benefits. Maintaining these items at a current market rate requires that new resources be allocated annually. The market review of compensation was conducted and no market adjustment in any of the salary categories was warranted. The increases in salary will be the step increases in the Fire and Police Department, and to move employees who become eligible toward the mid-point of their salary range in the non-civil service departments. These normal increases appear in the budget each year in addition to any market adjustment. The total cost associated with salary adjustments in fiscal year 2013 is approximately \$224,000. This amount represents an overall 1% salary increase for city employees and step raises for protective services (Fire and Police).

In addition to salary adjustments, in the past, we have experienced a decrease in Texas Municipal Retirement System ("TMRS") contributions. It is important to note that in fiscal year 2013 we will continue participation in TMRS, and the City's match of 1.5:1. In FY 2013, the actuarial rate will be 12.31% which is an increase of .15% from the previous fiscal year. This allows us to continue in TMRS and meet, over time, the UAAL obligation. All other personnel related benefit programs remain at the level reflected in the fiscal year 2012 budget.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the Finance Department, Attn: Accounting Manager, 211 E. Pleasant Run Road, DeSoto, Texas 75115, or call (972) 230-9678, or email *tcormier@desototexas.gov*.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

	Primary Government						
	Governmental Activities	Business-type Activities	Total				
ASSETS							
Cash and investments	\$ 20,620,626	\$ 20,745,803	\$ 41,366,429				
Receivables	3,727,732	2,895,878	6,623,610				
Due from other governments	195,429	-	195,429				
Inventories	52,881	5,475	58,356				
Note from component unit	2,291,673	-	2,291,673				
Investment in joint ventures	1,255,190	-	1,255,190				
Deferred charges	1,310,525	280,537	1,591,062				
Capital assets:							
Non-depreciable	28,872,694	7,660,226	36,532,920				
Depreciable, net	121,161,405	56,500,927	177,662,332				
Total assets	179,488,155	88,088,846	267,577,001				
LIABILITIES							
Accounts payable	1,161,025	1,285,987	2,447,012				
Accrued liabilities	626,100	105,425	731,525				
Retainage payable	62,392	188,946	251,338				
Unearned revenues	59,275	28,149	87,424				
Accrued interest	367,819	77,855	445,674				
Customer deposits	-	1,289,733	1,289,733				
Noncurrent liabilities:							
Due within one year	6,705,777	1,013,353	7,719,130				
Due in more than one year	72,358,919	15,457,414	87,816,333				
Total liabilities	81,341,307	19,446,862	100,788,169				
NET ASSETS							
Invested in capital assets, net of related debt	85,553,558	57,708,884	143,262,442				
Restricted for:							
Debt service	1,481,952	-	1,481,952				
Public safety	728,475	-	728,475				
Economic development	552,351	-	552,351				
Unrestricted (deficit)	9,830,512	10,933,100	20,763,612				
Total net assets	\$98,146,848	\$ 68,641,984	\$ 166,788,832				

Component	Units

DeSoto Park	DeSoto Economic
Development	Development
Corporation	Corporation
\$ 544,638	\$ 2,457,217
88,388	265,165
<u>-</u>	<u>-</u>
_	-
_	_
-	_
79,715	107,121
75,713	107,121
11,250	-
2,752,086	-
3,476,077	2,829,503
3,470,077	2,027,303
-	25,232
-	-
-	-
-	-
15,837	14,708
-	-
325,000	247,460
3,175,000	2,942,323
3,515,837	3,229,723
983,336	_
,	
-	-
-	-
-	-
(1,023,096)	(400,220)
\$ <u>(</u> 39,760)	\$ <u>(</u> 400,220)

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

					Prog	gram Revenue			
Functions/Programs		Expenses		Charges for Services	C	Operating Grants and ontributions	Capital Grants and Contributions		
Primary government:									
Governmental activities:									
General government	\$	4,562,337	\$	365,815	\$	346,158	\$	2,130,000	
Public safety		17,491,146		2,865,010		872,364		276,232	
Development services		7,312,154		823,229		-		-	
Financial services		926,892		-		-		-	
Information technology		280,360		-		-		-	
Human resources		197,978		-		-		-	
Parks and leisure services		3,844,791		813,009		30,574		43,930	
Library services		890,239		62,601		5,658		-	
Interest on long-term debt		3,391,573							
Total governmental activities		38,897,470		4,929,664		1,254,754		2,450,162	
Business-type activities:									
Water and sewer		14,097,518		16,138,436		-		15,000	
Storm drainage		1,427,820		1,458,904		-		-	
Sanitation		3,246,026		3,428,857				-	
Total business-type activities	_	18,771,364		21,026,197				15,000	
Total primary government	\$	57,668,834	\$	25,955,861	\$	1,254,754	\$	2,465,162	
Component units:									
DPDC	\$	2,212,811	\$	-	\$	-	\$	-	
DEDC	_	1,751,028							
Total component units	\$	3,963,839	\$	-	\$	-	\$	_	

General revenues:

Taxes:

Property

Franchise

Sales

Hotel occupancy

Mixed beverage

Investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning

Net assets - ending

	Tiet (Expen	se) Revenue and Changes Primary Government	111 1 (00 11	3500	Component Units					
Governmental Activities		Business-type Activities				DeSoto Park Development Corporation		DeSoto Economic Development		
		Activities	-	Total		corporation		Corporation		
\$(1,720,364)	\$ -	\$(1,720,364)	\$	-	\$	-		
(13,477,540)	-	(13,477,540)		-		-		
(6,488,925)	-	(6,488,925)		-		-		
(926,892)	-	(926,892)		-		-		
(280,360)	-	(280,360)		-		-		
(197,978)	-	(197,978)		-		-		
(2,957,278)	-	(2,957,278)		-		-		
(821,980)	-	(821,980)		-		-		
(3,391,573)		(3,391,573)						
(30,262,890)		(30,262,890)						
		2.055.019		2.055.010						
	-	2,055,918		2,055,918		-		-		
	-	31,084		31,084		-		-		
	-	182,831	_	182,831		-				
_		2,269,833		2,269,833		<u>-</u>				
(30,262,890)	2,269,833	(27,993,057)		-				
	_	-		-	(2,212,811)		-		
	-	-		-		-	(1,751,028)		
	-	_		-	(2,212,811)	(1,751,028)		
	20,673,781	-		20,673,781		-		-		
	2,835,277	-		2,835,277		-		-		
	5,929,029	-		5,929,029		494,086		1,482,257		
	704,045	-		704,045		-		-		
	30,483	-		30,483		-		-		
	70,204	45,782		115,986		1,139		10,505		
	254,756	-		254,756		-		-		
	1,735,102	(1,735,102)		-						
	32,232,677	(1,689,320)		30,543,357		495,225		1,492,762		
	1,969,787	580,513		2,550,300	(1,717,586)	(258,266)		
	96,177,061	68,061,471		164,238,532		1,677,826	(141,954)		
\$	98,146,848	\$ 68,641,984	\$	166,788,832	\$ <u>(</u>	39,760)	\$ <u>(</u>	400,220)		

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

	General	Debt Service
ASSETS		
Cash and investments	\$ 8,312,863	\$ 1,567,330
Receivables, net:		
Taxes	1,653,969	266,630
Due from other governments	137,934	-
Accounts	1,536,688	21,788
Due from other funds	47,448	-
Inventories	52,881	-
Note receivable		2,130,000
Total assets	\$11,741,783	\$ 3,985,748
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 854,643	\$ 5,977
Accrued liabilities	597,980	-
Due to other funds	-	-
Deferred revenue	995,045	2,376,042
Total liabilities	2,447,668	2,382,019
Fund balances:		
Nonspendable:		
Inventories	52,881	-
Note receivable	-	-
Restricted:		
Debt service	-	1,603,729
Street improvements	-	-
Public safety	-	-
Economic development	-	-
Capital projects	-	-
Committed:		
Public health	-	-
Development		-
Subsequent year's budget	557,178	-
Assigned:		
Street improvements	-	-
Capital projects		-
Unassigned	8,684,056	
Total fund balances	9,294,115	1,603,729
Total liabilities and fund balances	\$ 11,741,783	\$ 3,985,748

Street			Other		Total			
Ir	nprovement	G	overnmental		Governmental			
\$	8,566,487	\$	2,173,946	\$	20,620,626			
	_		_		1,920,599			
	_		57,495		195,429			
	-		248,657		1,807,133			
	-		- -		47,448			
	-		-		52,881			
	161,673			_	2,291,673			
\$	8,728,160	\$ <u></u>	2,480,098	\$ <u></u>	26,935,789			
\$	258,614	\$	41,791	\$	1,161,025			
	-		28,120		626,100			
	-		47,448		47,448			
			146,603	_	3,517,690			
	258,614		263,962	_	5,352,263			
	-		-		52,881			
	161,673		-		161,673			
	_		_		1,603,729			
	7,480,942		_		7,480,942			
	-		728,475		728,475			
	-		552,351		552,351			
	-		35,248		35,248			
	-		18,352		18,352			
	-		152,029		152,029			
	-		-		557,178			
	826,931		-		826,931			
	-		729,681		729,681			
	-		-		8,684,056			
	8,469,546	_	2,216,136	_	21,583,526			
\$	8,728,160	\$ <u></u>	2,480,098	\$ <u></u>	26,935,789			



RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS SEPTEMBER 30, 2012

Total fund balance - governmental funds			\$	21,583,526
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.				150,034,099
Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.				1,310,525
The investment in joint ventures is not considered a financial asset. Therefore, this is not reported in the governmental funds balance sheet.	t			1,255,190
Some revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year-end. On the accrual basis, however, those revenues would be recognized, regardless of when they are collected.				3,458,415
Interest on long-term debt is recognized when paid at the fund level, but is accrued when incurred in the government-wide financials.	1		(367,819)
Some liabilities (such as notes payable, capital lease obligations, long-term compensated absences, and bonds payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the government-wide financials.				
TMRS liability	\$(588,398)		
Retainage payable	(62,392)		
Notes payable	(678,926)		
Bonds payable	(69,981,424)		
Compensated absences	(4,411,959)		
Capital lease obligations	(410,088)		
Bond premium	(3,531,266)		
Gain or loss on bond refunding		537,365		
Total long-term liabilities	(79,127,088)	(79,127,088)
Net assets of governmental activities in the statement of net assets			\$	98,146,848

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

		General		ebt Service
REVENUES				
Property taxes	\$	14,014,987	\$	7,078,068
Franchise fees		2,816,188		-
Sales taxes		5,929,029		-
Hotel occupancy tax		-		-
Mixed beverage tax		30,483		-
Fines and forfeitures		889,401		-
Licenses and permits		823,229		-
Intergovernmental		1,011,167		377,431
Charges for services		1,886,689		-
Investment earnings		31,285		5,593
Recreation revenue		792,015		-
Miscellaneous		148,537		
Total revenues		28,373,010		7,461,092
EXPENDITURES				
Current:				
General government		2,020,067		-
Public safety:				
Police		8,734,686		-
Fire		6,900,911		-
Development services		3,030,737		-
Financial services		715,900		-
Information technology		274,064		-
Human resources		197,010		-
Parks and leisure services		3,222,956		-
Library services		868,516		-
Non-departmental		1,386,474		-
Debt service:				
Principal		321,794		4,667,226
Interest and other charges		50,042		3,642,280
Capital outlay		752,988		-
Total expenditures		28,476,145		8,309,506
EXCESS (DEFICIENCY) OF REVENUES	_			
OVER (UNDER) EXPENDITURES	(103,135)	(848,414)
OTHER FINANCING SOURCES (USES)				
Issuance of long-term debt		-		18,040,000
Premium on issuance of bonds		-		3,220,773
Payment to escrow agent		_	(21,001,274)
Transfers in		1,735,102	,	742,635
Transfers out	(872,967)		2,000
				1 002 124
Total other financing sources and uses	_	862,135		1,002,134
NET CHANGE IN FUND BALANCES		759,000		153,720
FUND BALANCES, BEGINNING		8,535,115		1,450,009
FUND BALANCES, ENDING	\$	9,294,115	\$	1,603,729

Street			Other		Total			
	Improvement				overnmental			
\$	-	\$	-	\$	21,093,055			
	-		-		2,816,188			
	-		-		5,929,029			
	-		704,045		704,045			
	-		-		30,483			
	-		69,133		958,534			
	-		-		823,229			
	-		683,422		2,072,020			
	-		34,323		1,921,012			
	28,553		4,773		70,204			
	-		4,800		796,815			
_	<u> </u>		8,227		156,764			
_	28,553		1,508,723		37,371,378			
	-		611,034		2,631,101			
	_		937,520		9,672,206			
	-		18,279		6,919,190			
	9,626		1,800		3,042,163			
	-		46,821		762,721			
	-		-		274,064			
	-		-		197,010			
	-		-		3,222,956			
	-		617		869,133			
	-		-		1,386,474			
	_		_		4,989,020			
	-		-		3,692,322			
	2,208,244		563,534		3,524,766			
_	2,217,870		2,179,605		41,183,126			
-	2,217,670		2,179,003	-	41,163,120			
(2,189,317)	(670,882)	(3,811,748)			
	_		_		18,040,000			
	_		_		3,220,773			
	_		_	(21,001,274)			
	573,189		263,734	`	3,314,660			
(594,509)	(112,082)	(1,579,558)			
(21,320)		151,652		1,994,601			
(2,210,637)	(519,230)	(1,817,147)			
_	10,680,183		2,735,366		23,400,673			
\$	8,469,546	\$	2,216,136	\$	21,583,526			

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Net change in fund balances - total governmental funds:	\$(1,817,147)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets estimated useful lives as depreciation expense. This is the amount of capital asset recorded in the current period.		3,548,722
Depreciation on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation is not reported as expenditures in the governmental funds.	(6,449,836)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned. Change in deferred revenue		1,760,777
Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Net Assets shows this as a reduction of long-term liabilities.	,	a. 1 000 200)
Issuance of debt	(21,028,232)
Repayment of principal on long-term debt		4,989,020
Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Payment to refunding escrow agent		21,001,274
Premium on debt		262,326
Bond issuance costs	(93,418)
Bond refunding loss	(62,998)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:		
Accrued interest		65,715
Compensated absences	(96,798)
Change in net assets of governmental activities	\$	1,969,787

STATEMENT OF NET ASSETS PROPRIETARY FUNDS SEPTEMBER 30, 2012

	Business-type Activities - Enterprise Funds							
	,	Water and		• •	•			
		Sewer		Drainage		Sanitation		Total
ASSETS								
Current assets:								
Cash and investments	\$	16,628,097	\$	2,923,473	\$	1,194,233	\$	20,745,803
Accounts receivable, net		2,242,540		146,515		506,823		2,895,878
Inventories		5,475				_		5,475
Total current assets		18,876,112		3,069,988		1,701,056		23,647,156
Non-current assets:								
Deferred charges		210,585		69,952		-		280,537
Capital assets:								
Land		283,902		341,197		320,087		945,186
Construction in progress		6,285,486		268,451		161,103		6,715,040
Improvements		9,377,369		4,965,680		387,400		14,730,449
Water and sewer systems		75,067,826		-		-		75,067,826
Drainage systems		-		11,636,842		-		11,636,842
Equipment and furniture		968,160		70,944		251,894		1,290,998
Accumulated depreciation	(41,277,884)	(4,755,795)	(191,509)	(46,225,188)
Total non-current assets		50,915,444		12,597,271		928,975		64,441,690
Total assets		69,791,556	_	15,667,259		2,630,031		88,088,846
LIABILITIES								
Current liabilities:								
Accounts payable		944,895		64,973		276,119		1,285,987
Accrued liabilities		83,501		11,520		10,404		105,425
Retainage payable		177,905		11,041		-		188,946
Customer deposits		1,289,733		-		-		1,289,733
Accrued interest		52,214		25,641		-		77,855
Unearned revenue		3,770		-		24,379		28,149
Compensated absences		53,077		9,739		6,676		69,492
Bonds payable		450,000		493,861		_		943,861
Total current liabilities		3,055,095		616,775		317,578		3,989,448
Non-current liabilities:								
Compensated absences		159,231		29,216		20,030		208,477
Bonds payable		10,741,289		4,458,936		-		15,200,225
TMRS net pension obligation		39,129		2,331		7,252		48,712
Total non-current liabilities		10,939,649		4,490,483		27,282		15,457,414
Total liabilities		13,994,744		5,107,258		344,860		19,446,862
NET ASSETS								
Invested in capital assets, net of related debt		47,358,580		9,421,329		928,975		57,708,884
Unrestricted	_	8,438,232	-	1,138,672		1,356,196		10,933,100
Total net assets	\$	55,796,812	\$	10,560,001	\$	2,285,171	\$	68,641,984

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-type Activities - Enterprise Funds							
	Water and							
	Sewer			Drainage		Sanitation		Total
REVENUES								
Charges for services	\$	16,052,368	\$	1,458,904	\$	3,428,857	\$	20,940,129
Miscellaneous		86,068		-		-		86,068
Total operating revenues	_	16,138,436	_	1,458,904	_	3,428,857	_	21,026,197
OPERATING EXPENSES								
Personnel costs		1,720,499		291,147		235,984		2,247,630
Water supply		3,888,331		-		-		3,888,331
Wastewater treatment		3,453,482		-		-		3,453,482
Refuse collection		-		-		2,261,245		2,261,245
Administrative charges		1,269,164		102,673		500,000		1,871,837
Contractual services		230,961		10,296		141,292		382,549
Repairs and maintenance		613,236		78,751		18,734		710,721
Materials and supplies		164,834		5,517		33,666		204,017
Other		141,689		3,926		461		146,076
Depreciation		2,173,570		720,928		54,644		2,949,142
Total operating expenses	_	13,655,766	_	1,213,238	_	3,246,026	_	18,115,030
OPERATING INCOME	_	2,482,670	_	245,666	_	182,831	_	2,911,167
NON-OPERATING REVENUES (EXPENSES)								
Investment earnings		37,308		6,075		2,399		45,782
Interest expense	(441,752)	(214,582)	_		(656,334)
Total non-operating revenues (expenses)	(404,444)	(208,507)	_	2,399	(610,552)
INCOME BEFORE CONTRIBUTIONS								
AND TRANSFERS		2,078,226		37,159		185,230		2,300,615
Capital contributions		15,000		-		-		15,000
Transfers out	(1,735,102)		-	_	-	(1,735,102)
CHANGE IN NET ASSETS		358,124		37,159		185,230		580,513
NET ASSETS, BEGINNING	_	55,438,688	_	10,522,842	_	2,099,941	_	68,061,471
NET ASSETS, ENDING	\$ <u></u>	55,796,812	\$	10,560,001	\$	2,285,171	\$	68,641,984

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Business-type Activities - Enterprise Funds							
		Water and Sewer		Drainage		Sanitation		Total
CASH FLOWS FROM OPERATING ACTIVITIES								
Receipts from customers	\$	16,510,140	\$	1,464,889	\$	3,275,255	\$	21,250,284
Payments to suppliers	(9,933,305)	(142,559)	(2,885,719)	(12,961,583)
Payments to employees	(1,671,694)	(260,000)	(240,704)	(2,172,398)
Net cash provided by operating activities	_	4,905,141		1,062,330	_	148,832	_	6,116,303
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES								
Transfers out to other funds	(1,735,102)				_	(1,735,102)
	<u>(</u>				_			
Net cash used by noncapital financing activities	(1,735,102)			_		(1,735,102)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES								
Acquisition and construction of	,	2.110.524)	,	212.250	,	05.426	,	2.415.240
property, plant and equipment	(3,119,534)	(212,279)	(85,436)	(3,417,249)
Intergovernmental	,	158,865	,	- 520 775)		-	,	158,865
Principal paid on long-term debt Interest paid on long-term debt	(445,000)	(532,775)		-	(977,775)
-	(440,700)	(234,903)	_		(675,603)
Net cash used by capital and								
related financing activities	(3,846,369)	(979,957)	(85,436)	(4,911,762)
CASH FLOWS FROM INVESTING ACTIVITIES								
Interest received	_	37,308		6,075	_	2,399		45,782
Net cash provided by investing activities	_	37,308	_	6,075	_	2,399		45,782
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(639,022)		88,448		65,795	(484,779)
CASH EQUIVALENTS	(039,022)		00,448		05,175	(404,779)
CASH AND CASH EQUIVALENTS, BEGINNING	_	17,267,119		2,835,025	_	1,128,438		21,230,582
CASH AND CASH EQUIVALENTS, ENDING	\$	16,628,097	\$	2,923,473	\$	1,194,233	\$	20,745,803

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2012

Business-type Activities - Enterprise Funds Water and Sewer Drainage Sanitation Total RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES \$ Operating income 2,482,670 \$ 245,666 \$ 182,831 2,911,167 Adjustments to reconcile operating income to net cash provided by operating activities: Depreciation 2,173,570 720,928 54,644 2,949,142 Change in assets and liabilities: Decrease (increase) in customer receivable 331,099 5,985 170,715) 166,369 Decrease (increase) in inventory 1,508) 1,508) (Increase (decrease) in accounts payable 170,100) 58,604 68,899 42,597) Increase (decrease) in accrued liabilities 13,675 710 780 15,165 Increase (decrease) in customer deposits 43,600 43,600 Increase (decrease) in unearned revenue 2,995) 14,118 17,113 Increase (decrease) in compensated absences 30,437 35,130 4,720) 60,847 Total adjustments 2,422,471 816,664 33,999) 3,205,136 Net cash provided by operating activities 4,905,141 1,062,330 6,116,303 148,832

NONCASH CAPITAL AND FINANCING ACTIVITIES

The City issued bonds to refund Drainage Fund long-term debt. \$2,905,039 was deposited into an irrevocable trust for the defeasance of \$2,885,000 of outstanding long-term debt and \$20,039 of interest.

STATEMENT OF FIDUCIARY NET ASSETS

SEPTEMBER 30, 2012

	Agency Fund
ASSETS Cash and investments	\$545,199
Total assets	\$545,199
LIABILITIES Due to Southwest Regional Communications Center	\$ <u>545,199</u>
Total liabilities	\$ <u>545,199</u>



NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of DeSoto (the "City") was incorporated in 1949. The City operates as a home-rule City under a council-manager form of government with a mayor and six City Council members elected at large. The City provides the following services as authorized by its charter: public safety (police and fire), streets, water, sewer and drainage utilities, solid waste operations, public library, parks and recreation, public improvements, planning, zoning and code enforcement, and general administrative services.

The accounting and reporting policies of the City conform to accounting principles generally accepted in the United States of America for local governments. Generally accepted accounting principles (GAAP) for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). The City has selected the option to not follow private sector standards of accounting and financial reporting issued subsequent to November 30, 1989, for its proprietary activities. The following is a summary of the more significant accounting and reporting policies:

Reporting Entity

In defining the scope of the City for financial reporting purposes, the City conforms to the criteria of GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement 39, "Determining Whether Certain Organizations Are Component Units." This report includes the financial statements of the City's primary government, which covers all funds or organizations that are part of the City's legal entity.

Additionally, the City's primary government also includes blended component units. These are legally separate entities for which the City is financially accountable and the governing board of the City is essentially the same as that of the entities. Based on these criteria, the Health Facilities Development Corporation, the Housing Finance Corporation and the Industrial Development Authority, Inc. are included as Special Revenue Funds of the primary government.

<u>Health Facilities Development Corporation</u> – The City created the Corporation to assist the maintenance of public health within the City. The Corporation's governing body is the same as the governing body of the City. The Corporation is authorized to sell bonds. Upon dissolution of the Corporation, the assets of the Corporation shall be distributed to the City.

Reporting Entity (Continued)

<u>Housing Finance Corporation</u> – The City created the Corporation to carry out the purposes of the Texas Housing Finance Corporations Act within the City. The Corporation's governing body is the same as the governing body of the City. There are seven directors. The Corporation is authorized to sell bonds. Upon dissolution of the Corporation, title to or other interests in any real or personal property owned by the Corporation shall vest in the City.

<u>Industrial Development Authority, Inc.</u> – The City created the Corporation for the purposes of promoting and developing commercial, industrial, manufacturing and medical research enterprises to promote and encourage employment, public health and public welfare within the City. The Corporation's governing body is the same as the governing body of the City. The Corporation is authorized to sell bonds. Upon dissolution of the Corporation, the assets of the Corporation shall be distributed to the City.

The City's reporting entity also includes the accounts of the DeSoto Economic Development Corporation ("DEDC") and the DeSoto Park Development Corporation ("DPDC") as discretely presented component units, entities for which the City is financially accountable. The City Council appoints the Board of Directors of the DEDC and the DPDC, and is able to impose its will on the organizations.

DeSoto Economic Development Corporation – The Corporation was created for the purpose of promoting economic development within the City. There are five directors, all appointed by the City Council. All directors are residents of the City. Each director serves a three-year staggered term. The Corporation is authorized to borrow funds and issue bonds with City Council approval.

<u>DeSoto Parks Development Corporation</u> – The Corporation was created for the purpose of promoting parks within the City. There are seven directors, all appointed by the City Council. All directors are residents of the City. Each director serves a two-year staggered term. The Corporation is authorized to issue bonds for public parks and park facilities projects with City Council approval.

Separate financial statements are not issued for the DPDC, the Health Facilities Development Corporation, the Housing Finance Corporation and the Industrial Development Authority. Complete financial statements are issued by the DEDC and can be obtained from:

DeSoto Economic Development Corporation 211 E. Pleasant Run Road DeSoto, Texas 75115

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its discretely presented component units.

All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities, transactions between governmental and business-type activities have not been eliminated.

Governmental activities, which are normally supported by property, sales and franchise taxes, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Significant revenues generated from business-type activities include: charges to customers for water and wastewater services, municipal drainage services and charges for solid waste services. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

This statement demonstrates the degree to which the direct expenses of a given function of government are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function of City government. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues in the statement of activities.

In addition to the government-wide financial statements, the City also reports separate financial statements for governmental funds, proprietary funds, and fiduciary funds; these statements are classified as fund financial statements. The fund financial statements are organized on the basis of funds, each of which is considered a separate accounting entity with self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds at September 30, 2012:

<u>General Fund</u> – The General Fund is the primary operating fund of the City. This fund is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

<u>Debt Service Fund</u> – This fund accounts for the accumulation of resources (primarily property tax levies) for the payment of principal, interest and related costs of general long-term debt.

<u>Street Improvements Funds</u> – These funds account for the financial and construction costs of various street improvement projects within the City. General obligation and certificate of obligation bonds provide the financing.

The City reports the following major proprietary funds at September 30, 2012:

<u>Water and Sewer Fund</u> – This fund accounts for water and wastewater system services provided for residents and businesses of the City, including administration, operations, maintenance, debt service, billing and collection.

<u>Drainage Fund</u> – This fund accounts for the operation of the Water and Sewer Utility and provides funding for drainage capital improvements, and enhanced maintenance of the drainage system.

<u>Sanitation Fund</u> – This fund accounts for revenues and expenses of solid waste operations. Revenues are generated through user charges. This fund also funds additional services for litter control and median beautification, street sweeping and household hazardous waste collection.

Additionally, the City reports the following fund type:

<u>Agency Fund</u> – This fund reports cash and investments held by the City on behalf of the Southwest Regional Communications Center.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. With the economic resources measurement focus, all assets and liabilities (whether current or noncurrent) are reported on the statement of net assets.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes measurable and available. Measurable means the amount of the transaction can be determined. Available means collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the fiscal year-end. Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred, with the exception of principal and interest on general long-term debt, and liabilities for accrued compensated absences and arbitrage rebate, which are recognized when due.

Property taxes, sales tax revenue, franchise taxes, grants and interest income are considered to be susceptible to accrual. Licenses and permits, charges for services, and fines and forfeitures are recorded as revenue when received in cash, because they are generally not measurable and available until actually received. The deferred revenues account is utilized in governmental funds to record earned amounts which are unavailable to liquidate liabilities of the current period (i.e., not collectible within 60 days). When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary operations are charges to customers for sales and services. All revenues and expenses that do not meet this definition are reported as non-operating revenues and expenses. Unbilled receivables for water and sewer services are recorded at year-end.

There is one fiduciary fund which is an Agency Fund. Agency Funds represent funds held in an agency capacity of the Southwest Regional Communication Center. These funds are monies held by the City related to the operation of the regional dispatch center, a joint venture of the City. These funds do not belong to the City. Agency funds do not have a measurement focus.

Investments

The City follows the provisions of GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" ("Statement"). Those provisions require that certain investments be reported at fair value, rather than at cost or amortized cost, and that the changes in the fair value of investments be recognized as investment revenue. The Statement further provides that the City has the option of continuing to report certain investments at cost or amortized cost but must disclose its policy in this regard. In accordance with GASB Statement No. 31, the City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value.

All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Non-negotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act") Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the fair value of its underlying investment portfolio within one-half of one percent of the value of its shares.

The City's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Property Taxes

Ad valorem taxes are levied from valuations assessed as of January 1 and are recognized as revenue beginning on the date of levy, October 1, when they become available. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay current liabilities. Taxes not expected to be collected within 60 days of the fiscal year are recorded as deferred revenue and is recognized when it becomes available. Taxes collected prior to the levy date to which they apply are recorded as deferred revenue and recognized as revenue of the period to which they apply. Current taxes are due on October 1, and become delinquent if unpaid on February 1 and are turned over to the City Attorney for collection on July 1. Delinquent property taxes attach as an enforceable lien on property as of January 1. For the year ended September 30, 2012, the City had a tax rate of \$.7574 per \$100, of which \$.5049 was allocated for general government, and \$.2525 was allocated for payment of principal and interest on governmental activities long-term debt.

Receivables

Taxes and accounts receivable are shown net of an allowance for uncollectible. Accounts receivable in excess of 90 days comprise the allowance for uncollectible. The property tax receivable allowance is equal to 10 percent of outstanding property taxes at September 30, 2012.

Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund financial statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventory

Inventories are valued at cost, using the first-in, first-out method. The City utilizes the consumption method to recognize inventory usage. Under the consumption method, inventories are recorded as expenses when used rather than when purchased.

Capital Assets

Capital assets, which include land, buildings, infrastructure, improvements, equipment and construction in progress, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are valued at their fair value on the date donated. Repairs and maintenance are recorded as expenses. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Assets capitalized have an original cost of \$5,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

10 - 50 years

32 years 3 - 10 years

Infrastructure, water and sewer system,

and water line replacements
Buildings
Equipment and furniture

Capital lease equipment Shorter of 5 years or lease term

Compensated Absences

The City permits employees to accumulate to certain limits unused vacation, sick leave and compensatory time. For civilian and police employees, unused vacation leave may be accumulated to a maximum of 320 hours and unused sick leave may be accumulated to a maximum of 720 hours. For firefighters, unused vacation leave may be accumulated to a maximum of 480 hours and unused sick leave may be accumulated to a maximum of 1,080 hours. GASB Interpretation No. 6 indicates that liabilities for compensated absences are normally expected to be liquidated with expendable available financial resources and should be recognized as governmental fund liabilities to the extent that they mature each period. Accrued compensated absences are reported in the respective columns in the government-wide financial statements and in the proprietary fund financial statements when earned. Compensated absences are reported in governmental funds only if they have matured.

Long-term Debt

In the government-wide financial statements, and the proprietary fund financial statements, long-term debt is reported as a liability in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds if material in amount. In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs are recognized during the current period. The face amount of debt is recorded as other financing sources. Bond premiums and discounts are recorded as other financing sources and uses. Issuance costs are reported as expenditures in the funds receiving the bond proceeds.

Transactions Between Funds

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund reimbursed. All other interfund transactions, except interfund services provided and used, are recorded as transfers.

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by ordinance of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council.
- Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

2. CASH AND INVESTMENTS

The City's investments at September 30, 2012, are as follows:

		Fair Value	Rating	Rating Agency	Weighted Average Maturity (Days)
MBIA TexPool	\$	20,690,448	AAf	Standard & Poor's Standard & Poor's	39
TexPool	\$ <u></u>	1,016,408 21,706,856	AAAm	Standard & Poors	41

<u>Interest Rate Risk</u>: In order to minimize risk of loss due to interest rate fluctuations, the City's investment policy states investment maturities will not exceed the anticipated cash flow requirement of the funds as follows:

Operating Funds – The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity of each security and the maximum allowable maturity shall be there for years.

<u>Debt Service Fund</u> – The maximum maturity for securities purchased shall not exceed the corresponding debt service payment date.

<u>Special Purpose Funds</u> – The maximum maturity shall not exceed five years and each fund's weighted average life shall not exceed three years.

2. CASH AND INVESTMENTS (Continued)

<u>Credit Risk</u>: In compliance with the City's investment policy as of September 30, 2012, the City minimized credit risk losses due to default of a security issuer or backer by limiting investments to the safest types of securities, pre-qualifying financial institutions, brokers/dealers, and advisors with which the City does business, and diversifying the investment portfolio so that potential losses on individual securities are minimized.

<u>Custodial Credit Risk</u>: The City maintains a cash and investment pool that combines cash of the various funds in order to maximize investment opportunities. The City's policy and state statutes require that all deposits in financial institutions be insured by the Federal Depository Insurance Corporation (FDIC) or fully collateralized as per the Public Funds Collateral Act. The City's deposits were fully insured or collateralized as required by state statutes as of September 30, 2012.

Discretely Presented Component Units

As of September 30, 2012, all of DEDC's and DPDC's deposits were fully insured by FDIC insurance or collateralized.

3. RECEIVABLES

Receivables at September 30, 2012, for the City's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

		General		Debt Service	Nonmajor		Water and Sewer		Dra in a ge		Sanitation		Total	
Ta xe s	\$	1,719,823	\$	296,256	\$	109,756	\$	-	\$	-	\$	-	\$	2,125,835
Due from other governments		137,934		-		57,495		-		-		-		195,429
Customeraccounts	3	-		-		-		2,312,063		150,925		517,155		2,980,143
Court fines		2,303,979		-		-		-		-		-		2,303,979
Ambulance		4,371,149		-		-		-		-		-		4,371,149
Franchise fees		778,117		-		-		-		-		-		778,117
Other		448,443		21,788		138,901		-		-		-		609,132
Gross receivables		9,759,445		318,044		306,152		2,312,063		150,925		517,155		13,363,784
Less allowance for uncollectibles	(6,430,854)	(29,626)	_		(69,523)	(4,410)	(10,332)	<u>(</u>	6,544,745)
	\$	3,328,591	\$	288,418	\$	306,152	\$	2,242,540	\$	146,515	\$	506,823	\$_	6,819,039

3. **RECEIVABLES** (Continued)

Governmental funds report deferred revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the various components of deferred revenues reported in the governmental funds were as follows:

General:		
Ad valorem tax	\$	542,431
Municipal court fines		230,399
Ambulance		164,122
Alarm permits		6,520
Debt service:		
Ad valorem tax		246,042
Due from discretely presented component units		2,130,000
Nonmajor government:		
Miscellaneous		138,901
Wiscenaneous		130,901
Deferred revenues - unavailable	_	3,458,415
General:		
Recreation deposits		40,974
Miscellaneous deposits		10,599
Nonmajor government:		
Miscellaneous		7,702
Deferred revenues - unearned	_	59,275
Total deferred revenues	\$	3,517,690
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4. CAPITAL ASSETS

Capital assets activity for governmental activities for the fiscal year ended September 30, 2012, is as follows:

	Beginning				7	Transfers/		Ending		
	_	Balance	_	Increases	Decreases			Balance		
Governmental activities:										
Capital assets - not being depreciated:										
Land	\$	3,703,301	\$	512,500	\$	-	\$	4,215,801		
Street/Alley ROW		14,072,949		-		-		14,072,949		
Construction in progress		10,657,604	_	2,245,294	(2,318,954)	_	10,583,944		
Total assets not being depreciated	-	28,433,854	_	2,757,794	(2,318,954)	-	28,872,694		
Capital assets - being depreciated:										
Buildings		36,146,705		206,336		40,742		36,393,783		
Infrastructure		153,415,181		9,785	:	2,136,055		155,561,021		
Equipment and furniture	_	10,105,467	_	600,994		142,157	_	10,848,618		
Total capital assets - being depreciated	-	199,667,353	_	817,115	_	2,318,954	-	202,803,422		
Less accumulated depreciation:										
Buildings		9,416,008		924,710		-		10,340,718		
Infrastructure		58,418,217		4,523,364		-		62,941,581		
Equipment and furniture	_	7,357,956	_	1,001,762	_	-	_	8,359,718		
Total accumulated depreciation	-	75,192,181	-	6,449,836	_		-	81,642,017		
Total capital assets - being depreciated	-	124,475,172	<u>(</u>	5,632,721)		2,318,954	-	121,161,405		
Governmental activities capital assets, net	\$	152,909,026	\$(2,874,927)	\$	-	\$	150,034,099		

4. **CAPITAL ASSETS** (Continued)

Capital assets activity for business-type activities for the fiscal year ended September 30, 2012, is as follows:

	Beginning				Т	ransfers/		Ending		
		Balance		Increases		Decreases	_	Balance		
Business-type activities:										
Capital assets - not being depreciated:										
Land	\$	945,186	\$	-	\$	-	\$	945,186		
Construction in progress	_	3,688,052	_	3,449,099	(422,111)	_	6,715,040		
Total assets not being depreciated	=	4,633,238	-	3,449,099	(422,111)	-	7,660,226		
Capital assets - being depreciated:										
Water and sewer system		75,067,826		-		-		75,067,826		
Drainage system		11,563,039		1,416		72,387		11,636,842		
Improvements		14,380,725		-		349,724		14,730,449		
Equipment and furniture	_	1,280,502	_	10,496		-	_	1,290,998		
Total capital assets - being depreciated	_	102,292,092	-	11,912	_	422,111	-	102,726,115		
Less accumulated depreciation:										
Water and sewer system		33,821,245		2,056,844		-		35,878,089		
Drainage system		1,909,791		524,155		-		2,433,946		
Improvements		6,539,513		250,357		-		6,789,870		
Equipment and furniture		1,005,497		117,786		-		1,123,283		
Total accumulated depreciation	_	43,276,046	-	2,949,142	_	-	-	46,225,188		
Total capital assets - being depreciated	=	59,016,046	<u>(</u>	2,937,230)		422,111	-	56,500,927		
Business-type activities capital assets, net	\$_	63,649,284	\$	511,869	\$_	-	\$	64,161,153		

4. **CAPITAL ASSETS** (Continued)

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities:		
General government	\$	555,742
Public safety		841,671
Development services		4,257,407
Parks and leisure services		610,219
Library services		18,202
Finance		161,267
Information technology	_	5,328
Total governmental activities	\$ <u></u>	6,449,836
Business-type activities:		
Water and sewer	\$	2,173,570
Drainage		720,928
Sanitation	_	54,644
Total business-type activities	\$_	2,949,142

Future expenditures for capital projects will be funded from unexpended and undrawn bond proceeds. In 2003, \$32,275,000 of various General Obligation Bonds were authorized and \$29,625,000 have been issued as of September 30, 2012.

Discretely Presented Component Units

Capital assets activity for the DeSoto Park Development Corporation (DPDC) is as follows:

		Beginning Balance	1	Increases		ecreases	Ending Balance	
DeSoto Park Development Corporation: Capital assets - not being depreciated:								
Land	\$	11,250	\$	-	\$	-	\$	11,250
Total assets not being depreciated	_	11,250				-	_	11,250
Capital assets - being depreciated:								
Improvements	_	5,324,530		-		-		5,324,530
Total capital assets - being depreciated		5,324,530				-	_	5,324,530
Less accumulated depreciation:								
Improvements	_	2,421,324		151,120		-		2,572,444
Total accumulated depreciation	_	2,421,324	_	151,120	_	-	_	2,572,444
Total capital assets - being depreciated		2,903,206	(151,120)		-	_	2,752,086
DeSoto Park Development								
Corporation capital assets, net	\$	2,914,456	\$(151,120)	\$	-	\$	2,763,336

5. CAPITAL ASSETS (Continued)

Discretely Presented Component Units (Continued)

Capital assets activity for the DeSoto Economic Development Corporation (DEDC) is as follows:

	Beginning Balance		Increases		Transfers/ Decreases		Ending Balance	
DeSoto Economic Development Corporatio Capital assets - being depreciated:								
Furniture and equipment	\$	69,879	\$	-	\$	-	\$	69,879
Total capital assets - being depreciated		69,879						69,879
Less accumulated depreciation:								
Furniture and equipment		69,879		-		-		69,879
Total accumulated depreciation	_	69,879		-		-		69,879
Total capital assets - being depreciated		69,879						69,879
DeSoto Economic Development Corporation capital assets, net	\$		\$		\$		\$	-

Construction Commitments

The City has active construction projects as of September 30, 2012. At year-end the City's commitments with contractors for specific projects are as follows:

Street improvements	\$ 2,515,431
Drainage	75,871
Water and sewer	1,114,594
Total commitments	\$ 3,705,896

5. LONG-TERM LIABILITIES

Changes in the City's long-term liabilities for the year ended September 30, 2012, are as follows:

	Balance 10/01/11	Increases	Decreases	Balance 09/30/12	Due Within One Year
Governmental activities:					
General obligation bonds	\$ 55,373,650	\$ 18,040,000	\$(19,297,226)	\$ 54,116,424	\$ 4,621,139
Certificates of obligation	21,995,000	-	(6,130,000)	15,865,000	660,000
Gain/loss on bond refunding	(998,377)	398,015	62,997	(537,365)	-
Bond premium	1,660,555	3,220,773	(1,350,062)	3,531,266	-
Note payable	892,040	-	(213,114)	678,926	219,580
Capital leases	518,768	-	(108,680)	410,088	102,068
Compensated absences	4,315,161	1,561,319	(1,464,521)	4,411,959	1,102,990
TMRS obligation	582,197	6,201		588,398	
Total	\$ 84,338,994	\$ 23,226,308	\$(28,500,606)	\$ 79,064,696	\$ 6,705,777
	Balance			Balance	Due Within
	10/01/11	Increases	Decreases	09/30/12	One Year
Business-type activities:					
Certificates of obligation	\$ 15,680,000	\$ -	\$(3,245,000)	\$ 12,435,000	\$ 560,000
2005 GO Refunding Bonds	1,266,000	-	(611,000)	655,000	292,000
2009 GO Refunding Bonds	60,351	-	(6,775)	53,576	6,861
2012 GO Refunding Bonds	-	2,550,000	- -	2,550,000	85,000
Bond premium	198,477	388,904	(47,126)	540,255	-
Loss on refunding	-	(96,648)	6,903	(89,745)	-
Compensated absences	217,122	152,812	(91,965)	277,969	69,492
TMRS obligation	48,712			48,712	
Total	\$ 17,470,662	\$ 2,995,068	\$ <u>(</u> 3,994,963)	\$ 16,470,767	\$ 1,013,353

For governmental activities, the TMRS obligation and compensated absences are generally liquidated by the General Fund.

Changes in the discretely presented component units' long-term liabilities for the year ended September 30, 2012, are as follows:

	Balance 10/01/11	Increases	Decreases	Balance 09/30/12	Due Within One Year
Component units: DPDC:					
2011 Revenue Refunding Bonds Note to City of DeSoto	\$ 1,925,000	\$ - 1,720,000	\$(145,000)	\$ 1,780,000 1,720,000	\$ 150,000 175,000
Total	\$ 1,925,000	\$_1,720,000	\$ <u>(145,000)</u>	\$ 3,500,000	\$ 325,000
DEDC:					
2011 Revenue Refunding Bonds	\$ 2,745,000	\$ -	\$(175,000)	\$ 2,570,000	\$ 175,000
Premium on bond issuance	48,327	-	(3,717)	44,610	-
Deferred loss on refunding	(19,738)	-	1,645	(18,093)	-
Compensated absences	-	41,007	(19,414)	21,593	5,398
Note to City of DeSoto	370,890	420,000	(219,217)	571,673	67,062
Total	\$ 3,144,479	\$ 461,007	\$ <u>(415,703)</u>	\$ 3,189,783	\$ 247,460

5. LONG-TERM LIABILITIES (Continued)

General obligation bonds, revenue bonds, certificates of obligation, and notes payable outstanding at September 30, 2012, consist of the following individual issues:

Governmental activities:

Governmental activities.				
	Interest	Maturity		Due Within
	Rate	Date	Outstanding	One Year
General obligation bonds:				
2005 Refunding and				
Improvement	3.0% - 5.0%	02/15/25	\$ 12,270,000	\$ 1,653,000
2006 General Obligation	3.750% -4.25%	02/15/26	5,770,000	330,000
2007 General Obligation	4.0% -4.375%	02/15/27	5,045,000	250,000
2008 General Obligation	3.25% -4.0%	02/15/28	4,160,000	195,000
2009 General Obligation				
and Refunding	3.0%-4.5%	02/15/29	7,061,424	828,139
2010 Refunding	2.0%	02/15/14	495,000	245,000
2011 Refunding	2.0%-4.0%	02/15/21	1,275,000	175,000
2012 Refunding	3.0% - 5.0%	02/15/25	18,040,000	945,000
_				
Total general obligation bonds		54,116,424	4,621,139	
Total general congation to	1143		31,110,121	1,021,139
Certificates of obligation:				
2005 Tax and Revenue	3.0%-4.5%	02/15/25	\$ 370,000	\$ 20,000
2006 Tax and Revenue	3.750% -4.25%	02/15/27	405,000	25,000
2007 Tax and Revenue	4.0%-4.375%	02/15/27	1,780,000	90,000
2007A Tax and Revenue				
(Tax exempt)	4.0% -4.25%	02/15/27	3,405,000	165,000
2007A Tax and Revenue			-,,	,
(Taxable)	4.0%-4.5%	02/15/27	2,625,000	115,000
2008 Tax and Revenue	2.8%-4.0%	02/15/28	685,000	30,000
2009 Tax and Revenue	3.0%-4.5%	02/15/29	4,960,000	200,000
2011A Tax and Revenue	4.75% -5.75%	02/15/31	835,000	15,000
2011B Tax and Revenue	2.0%	02/15/31	800,000	-
20112 14.14.14	2.070	02/10/01		
Total certificates of obligation			15,865,000	660,000
C				
Note payable:				
Energy Management Loan	3.0%	08/31/15	678,926	219,580
Total bonds, certificates and note payable			\$ 70,660,350	\$ 5,500,719
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5. LONG-TERM LIABILITIES (Continued)

Business-type activities				
	Interest	Maturity		Due Within
-	Rate	Date	Outstanding	One Year
General obligation bonds:				
2005 Refunding Bonds	3.0% - 5.0%	02/15/29	\$ 655,000	\$ 292,000
2009 Refunding Bonds	3.0% -4.5%	02/15/29	53,576	6,861
2012 Refunding Bonds	3.0% - 5.0%	02/15/25	2,550,000	85,000
Total general obligation bond	ls		3,258,576	383,861
Certificates of obligation:				
2005 Tax and Revenue	3.0% -4.50%	02/15/25	610,000	65,000
2006 Tax and Revenue	3.750% -4.25%	02/15/27	810,000	45,000
2009 Tax and Revenue	3.0% -4.5%	02/15/29	3,530,000	150,000
2010 Tax and Revenue	2.0% -4.125%	02/15/30	4,600,000	190,000
2011B Tax and Revenue	2.0%	02/15/31	2,885,000	110,000
Total cetificates of obligation			12,435,000	560,000
Total bonds and certificates			\$15,693,576	\$ 943,861
Component Unit - DPDC				
P	Interest	Maturity		Due Within
_	Rate	Date	Outstanding	One Year
Bonds:				
2011 Revenue Refunding Bonds	2.0% -4.0%	02/15/22	\$ 1,780,000	\$ 150,000
Notes payable:				
City of DeSoto-2009 GOs	3.0% -4.5%	02/15/29	865,000	110,000
City of DeSoto-2012 GOs	3.0% - 5.0%	02/15/25	855,000	65,000
Total notes payable			1,720,000	175,000
Total bonds and notes payab	le		\$3,500,000	\$325,000
Component Unit - DEDC				
•	Interest	Maturity		Due Within
	Rate	Date	Outstanding	One Year
Bonds:				
2011 Revenue Refunding Bonds	2.0% -4.0%	02/15/22	\$ 2,570,000	\$ 175,000
Notes payable:				
City of DeSoto-1995	3.0% - 5.0%	02/15/15	51,008	17,002
City of DeSoto-2005 GOs	3.6% -4.8%	02/15/15	110,665	35,060
City of DeSoto-2011A COs	4.75% -5.75%	02/15/31	410,000	15,000
Total notes payable			571,673	67,062
Total bonds and notes payab	le		\$ 3,141,673	\$ 242,062

(continued)

5. LONG-TERM LIABILITIES (Continued)

The annual requirements to amortize the long-term debt as of September 30, 2012, are as follows:

		Governmenta	al Activities		Business-ty	pe Activities
Fiscal	Во	onds	Notes I	Payable	Во	onds
Year	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 5,281,139	\$ 2,942,551	\$ 219,580	\$ 17,913	\$ 943,861	\$ 607,022
2014	4,378,804	2,762,155	226,241	11,251	976,196	574,748
2015	4,543,664	2,587,878	233,105	4,387	1,006,336	539,530
2016	4,692,426	2,401,883	-	-	792,574	507,382
2017	4,882,135	2,203,199	-	-	817,865	479,311
2018-2022	26,458,256	7,651,383	-	-	4,501,744	1,894,793
2023-2027	17,870,000	2,160,492	-	-	4,290,000	923,716
2028-2031	1,875,000	105,850			2,365,000	156,209
Total	\$ 69,981,424	\$ 22,815,391	\$ 678,926	\$ 33,551	\$ 15,693,576	\$ 5,682,711

The annual requirements to amortize the long-term debt for discretely presented component units as of September 30, 2012, are as follows:

						DP	DC					
Fiscal		Bor	nds			No	tes			Total		
Year		Principal		Interest		Principal		Interest		Principal	Interest	
2013	\$	150,000	\$	58,650	\$	175,000	\$	64,023	\$	325,000	\$	122,673
2014		155,000		55,600		185,000		58,375		340,000		113,975
2015		160,000		51,650		190,000		52,050		350,000		103,700
2016		165,000		46,775		200,000		45,475		365,000		92,250
2017		170,000		41,750		205,000		38,000		375,000		79,750
2018-2022	_	980,000	_	101,600	_	765,000	_	75,950	_	1,745,000	_	177,550
Total	\$	1,780,000	\$_	356,025	\$	1,720,000	\$	333,873	\$	3,500,000	\$	689,898

						DE	DC					
Fiscal		Boı	ıds			Notes				Total		
Year		Principal		Interest		Principal		Interest		Principal		Interest
2013	\$	175,000	\$	88,850	\$	67,062	\$	25,826	\$	242,062	\$	114,676
2014		185,000		84,788		68,860		23,315		253,860		108,103
2015		185,000		79,700		70,751		20,712		255,751		100,412
2016		195,000		73,513		15,000		19,031		210,000		92,544
2017		200,000		66,600		15,000		18,319		215,000		84,919
2018-2022		1,120,000		215,675		95,000		78,956		1,215,000		294,631
2023-2027		510,000		20,600		115,000		52,381		625,000		72,981
2028-2031	_		_		_	125,000	_	14,806	_	125,000	_	14,806
Total	\$_	2,570,000	\$_	629,726	\$_	571,673	\$_	253,346	\$_	3,141,673	\$_	883,072

5. LONG-TERM LIABILITIES (Continued)

						DE	DC					
Fiscal		Bor	ıds			No	tes			Total		
Year	Pr	incipal	Interest		Principal		Interest		Principal		Interest	
2013	\$	175,000	\$	88,850	\$	67,062	\$	25,826	\$	242,062	\$	114,676
2014		185,000		84,788		68,860		23,315		253,860		108,103
2015		185,000		79,700		70,751		20,712		255,751		100,412
2016		195,000		73,513		15,000		19,031		210,000		92,544
2017		200,000		66,600		15,000		18,319		215,000		84,919
2018-2022	1,	120,000		215,675		95,000		78,956		1,215,000		294,631
2023-2027		510,000		20,600		115,000		52,381		625,000		72,981
2028-2031			_		_	125,000	_	14,806	_	125,000	_	14,806
Total	\$ 2,	570,000	\$_	629,726	\$	571,673	\$	253,346	\$_:	3,141,673	\$_	883,072

Refunding

The City issued \$20,590,000 of General Obligation Refunding Bonds, Series 2012 with interest rates ranging from 3.0%-5.0%. The proceeds were used to advance refund \$7,740,000 of outstanding Series 2001, 2002, 2003, and 2005 certificates of obligation and \$15,905,000 of outstanding Series 2001, 2002, 2004, and 2005 general obligation bonds which had interest rates ranging from 3.5%-5.125%. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide funds for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered defeased and the liability for those bonds has been removed from the statement of net assets.

In the governmental activities, the carrying amount of the old debt exceeded the reacquisition price by \$398,015. In the Drainage enterprise fund, the reacquisition price exceeded the net carrying amount of the old debt by \$96,648. These amounts are being netted against the new debt and are being amortized over the remaining life of the refunding debt. The City advance refunded the bonds to reduce its total debt service payments over 13 years by \$2,349,173 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$2,822,043.

Defeasance of Debt

The City defeased bonds and certificates by placing proceeds of new long-term debt in an irrevocable trust account to provide for all future debt service payments on the old long-term debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the City's financial statements. At September 30, 2012, \$10,545,000 of defeased debt remains outstanding.

6. CAPITAL LEASES

The City has entered into lease agreements as lessee for financing the acquisition of various equipment. These leases qualify as capital leases and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

Governmental Activities

The cost of equipment purchased with a capital lease is \$2,342,189, and accumulated depreciation is \$1,916,453, with a carrying value of \$425,736 as of September 30, 2012.

The following is a schedule of the future minimum lease payments under these agreements and the present value of the net minimum lease payments at September 30, 2012:

Fiscal Year	Amount
2013	\$ 119,878
2014	59,430
2015	59,430
2016	59,430
2017	59,430
2018-2019	118,860
Minimum lease payments	476,458
Less amount representing interest	66,370
Total	\$410,088

7. INTERFUND BALANCES AND TRANSFERS

Due to/from Other Funds

The composition of interfund balances as of September 30, 2012, is as follows:

Receivable Fund	Payable Fund	Amount
General	Nonmajor governmental funds	\$47,448
		\$ 47,448

The receivable to the General Fund from the Homeland Security Grant Fund is for a temporary cash overdraft.

7. INTERFUND BALANCES AND TRANSFERS (Continued)

Interfund Transfers

The composition of interfund transfers for the year ended September 30, 2012, is as follows:

Transfer from	Transfer to	Amount	Purpose
General	Street improvement	\$ 573,189	Street improvements
	Nonmajor governmental	263,734	1/3 of regional jail expenditures
	Debt service	36,044	To fund debt service
Street improvement	Debt service	594,509	To fund debt service
Nonmajor governmental	Debt service	112,082	To fund debt service
Water and sewer	General	1,735,102	PILOT, franchise fees, energy management grant, and maintenance and equipment
Total		\$ 3,314,660	

8. RETIREMENT PLAN

Plan Description

The City provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.TMRS.com.

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2012	Plan Year 2011
Employee denosit rate	7.0%	7.0%
Employee deposit rate		,
Matching ratio (city to employee)	1.5 to 1	1.5 to 1
Years required for vesting	5	5
Service retirement eligibility		
(expressed as age/years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% repeating,	100% repeating,
	transfers	transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI
	repeating	repeating

8. RETIREMENT PLAN (Continued)

Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. The annual pension cost and net pension obligation are as follows:

			Fiscal Year	
		2012	2011	2010
Annual Required Co Interest on Net Pens Adjustment to the A Annual Pension Co	sion Obligation ARC st	\$ 2,381,834 44,164 (37,963) 2,388,035	\$ 2,785,993 46,713 (38,650) 2,794,056	\$ 2,867,883 33,425 (27,213) 2,874,095
Contributions Made		(2,381,834)	(2,785,993)	(2,696,902)
Increase in Net Pen	C	6,201	8,063	177,193
Net Pension Obliga	tion, beginning	630,909	622,846	445,653
Net Pension Obliga	tion, ending	\$637,110	\$ 630,909	\$ 622,846
Fiscal	Annual	Actual	Percentage	Net
Year	Pension	Contribution	of APC	Pension
Ending	Cost (APC)	Made	Contributed	Obligation
09/30/10 09/30/11 09/30/12	\$ 2,874,095 2,794,056 2,388,035	\$ 2,696,902 2,785,993 2,381,834	93.83% 99.71% 99.74%	\$ 622,846 630,909 637,110

8. RETIREMENT PLAN (Continued)

Contributions (Continued)

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2009 and 2010 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2011, also follows:

Valuation date	12/31/11	12/31/10	12/31/09
Actuarial cost method	Projected unit credit	Projected unit credit	Projected unit credit
Amortization method	Level percent of payroll	Level percent of payroll	Level percent of payrol
GASB 25 equivalent single	26.1 years	27.1 years	28.1 years
amortization period	closed period	closed period	closed period
Amortization period for			
new gains/losses	30 years	30 years	30 years
Asset valuation method	10-yr. smoothed	10-yr. smoothed	10-yr. smoothed
	market	market	market
Actuarial assumptions:			
Investment rate of return*	7.0%	7.0%	7.5%
Projected salary increases*	Varies by age	Varies by age	Varies by age
	and service	and service	amd service
*Includes inflation at	3.00%	3.00%	3.00%
Cost of living adjustments	2.1%	2.1%	2.1%

Funded Status and Funding Progress

The funded status as of December 31, 2011, the most recent actuarial valuation date, is presented as follows:

		Actuarial				UAAL as a
	Actuarial	Accrued		Unfunded	Annual	Percentage
Actuarial	Value of	Liability	Funded	AAL	Covered	of Covered
Valuation	Assets	(AAL)	Ratio	(UAAL)	Payroll	Payroll
Date	(a)	(b)	(a/b)	(b-a)	(c)	(b-a)/(c)
12/31/11	\$ 76,955,194	\$ 87,960,376	87.5%	\$ 11,005,182	\$ 18,354,272	60.0%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

9. POSTRETIREMENT BENEFITS

Supplemental Death Benefits

The City participates in the cost sharing multiple-employer defined benefit group term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance to provide group term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers. The City's contributions to the TMRS SDBF for fiscal years 2010, 2011 and 2012 are as follows:

Year	Annual Required Contribution		Contribution Made	Percentage of ARC Contributed	Net OPEB Obligation		
2010	\$	3,624	\$ 3,624	100%	\$	_	
2011		3,631	3,631	100%		-	
2012		3,676	3,676	100%		-	

Health Insurance

In addition to providing pension benefits, retired employees are entitled to elect continuation coverage under the City's group accident and health insurance plan. The City revised its health care plan which requires that retirees pay the full cost of their health care as determined by the City's health care provider. The health care provider segregates the retired employees and calculates the healthcare costs for that group. Therefore, the City does not have an implicit cost for retired employees' health care coverage and no liability for postretirement benefits.

10. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with IRC 457. The plan, available to all permanent City employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants. Participants' rights under the plan are in an amount equal to the fair value of the deferred account for each participant. Investments that are held by an outside trustee in the deferred compensation plan are not reported in the City's financial statements as the City maintains no fiduciary responsibility for such assets.

11. COMMITMENTS AND CONTINGENCIES

Trinity River Authority of Texas

In November 1983, the City and other area municipalities entered into a contract with the Trinity River Authority (the "Authority") for utilization of the Authority's sewer transmission and treatment facilities. Under the contract, the City is required to pay a portion of the annual cash requirement to operate the facility determined by dividing the actual number of gallons discharged into the system by the City by the total number of gallons discharged by all of the participating cities. Accordingly, the future obligations of the City in connection with the contract cannot be estimated since payment varies in direct relationship to gallons discharged. The City has no ownership interest in the Authority or in conjunction with other participating cities.

Total payments made by the City under the contract amounted to \$3,888,331 for 2012. The payments are reflected in the accompanying statement of revenues, expenses and changes in fund net assets of the Water and Sewer Fund. Under the terms of the contract, the City is obligated to make payments for the use of the facilities for the life of the facilities. Further, revenue of the Water and Sewer Fund are pledged to support payments due the Authority in accordance with the terms of the contract. Such payments are considered operating expenses and, therefore, have priority over principal and interest due on revenue bonds.

State and Federal Programs

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. In the opinion of management of the City, disallowed costs, if any, would not be material.

11. **COMMITMENTS AND CONTINGENCIES** (Continued)

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the City purchased commercial insurance to cover these general liabilities from the Texas Municipal League Risk Pool ("TML"). The City pays an annual premium to TML for such coverage. TML purchases reinsurance and the City does not retain the risk of losses. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage in each of the past three fiscal years.

Conduit Debt Obligation

In prior years, the DeSoto Health Facilities Development Corporation, DeSoto Housing Finance Corporation and DeSoto Industrial Development Authority, Inc. issued revenue bonds to provide financial assistance to private sector entities for the acquisition and construction of health facilities, housing facilities and industrial development projects, respectively, deemed to be in the public interest. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not recorded as liabilities in the accompanying financial statements.

A summary of outstanding conduit bonds by component unit at September 30, 2012, follows:

Series		DeSoto sing Finance orporation	DeSoto Industrial Development Authority			
1998	\$	10,805,000	\$	-		
2000		-		7,050,000		
2004		9,400,000		-		
2008	_	-		3,613,446		
Total	\$	20,205,000	\$ <u> 1</u>	0,663,446		

DEDC

As of September 30, 2012, the DEDC had approved several grants totaling approximately \$1,660,800 payable in subsequent years, to certain businesses in the City. The payments of the grants are contingent on the businesses remaining in the City.

12. COMMITMENTS AND CONTINGENCIES (Continued)

DEDC (Continued)

DEDC grant commitments are scheduled as follows:

Fiscal Year	_		Amount
2013		\$	730,400
2014			238,400
2015			138,400
2016			138,400
2017			138,400
2018-2019		_	276,800
Total		\$	1,660,800

Other Contingencies

There are other claims and pending actions incident to normal operations of the City. In the opinion of the City management and based on consultation with the City's attorney, the City's potential liability in these matters will not have a material impact on the financial statements.

12. JOINT VENTURES

The Regional Dispatch Center (the Center) provides police, fire, medical aid and emergency service communications to participating cities. The Center's Management Committee is comprised of each of the participating cities' City Manager or their designee. During fiscal year 2012, the City contributed \$802,200 to the operations of the Center. The City has a one-third share in the equity of the Center, accounted for in the government wide statement of net assets. The value of the City's share in the equity of the facility as of September 30, 2012, is \$890,206. The Center issues separate financial statements available from the City's Financial Department.

The City also entered into an annually renewable Interlocal Cooperation agreement with the cities of Cedar Hill and Duncanville on September 3, 1991, to establish a Regional Animal Control Shelter facility ("facility"). The facility's Management Committee is comprised of each of the participating cities' City Manager or their designee. During the fiscal year 2012, the City contributed \$213,398 to the operations of the facility. The City has a one-third share in the equity of the facility, accounted for in the government wide statement of net assets. The value of the City's share in the equity of the facility as of September 30, 2012, is \$364,984.

The financial statements of the facility can be obtained by contacting: City of Cedar Hill Finance Department, P. O. Box 96, Cedar Hill, TX 75106-0096.



REQUIRED SUPPLEMENTARY INFORMATION



SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Variance with

	Budgeted	l Amounts		Final Budget - Positive		
	Original	Final	Actual	(Negative)		
REVENUES						
Property taxes	\$ 13,893,077	\$ 13,893,077	\$ 14,014,987	\$ 121,910		
Franchise fees	2,671,000	2,671,000	2,816,188	145,188		
Sales taxes	6,909,796	6,909,796	5,929,029	(980,767)		
Mixed beverage tax	33,000	33,000	30,483	(2,517)		
Fines and forfeitures	974,000	974,000	889,401	(84,599)		
Licenses and permits	571,000	571,000	823,229	252,229		
Intergovernmental	437,007	437,007	1,011,167	574,160		
Charges for services	1,823,650	1,830,650	1,886,689	56,039		
Recreation services	739,775	739,775	792,015	52,240		
Investment earnings	58,885	58,885	31,285	(27,600)		
Miscellaneous	99,800	102,800	148,537	45,737		
Total revenues	28,210,990	28,220,990	28,373,010	152,020		
EXPENDITURES Current:						
General government	3,099,733	3,148,066	2,020,067	1,127,999		
Public safety	2,0>>,123	2,1 .0,000	2,020,007	1,121,555		
Police	8,906,923	8,926,923	8,734,686	192,237		
Fire	7,145,391	7,151,308	6,900,911	250,397		
Development services	3,287,884	3,287,884	3,030,737	257,147		
Financial services	761,935	811,935	715,900	96,035		
Information technology	305,500	305,500	274,064	31,436		
Human resources	170,375	170,375	197,010	(26,635)		
Parks and leisure services	3,267,884	3,288,384	3,222,956	65,428		
Public library	864,061	867,061	868,516	(1,455)		
Non-departmental	1,174,858	1,139,858	1,386,474	(246,616)		
Debt service:	1,17.1,000	1,100,000	1,500,	(2.0,010)		
Principal	423,500	423,500	321,794	101,706		
Interest and other charges	26,000	26,000	50,042	(24,042)		
Capital outlay	656,082	710,582	752,988	(42,406)		
Total expenditures	30,090,126	30,257,376	28,476,145	1,781,231		
EXCESS (DEFICIENCY) OF REVENUES						
OVER (UNDER) EXPENDITURES	(1,879,136)	(2,036,386)	(103,135)	1,933,251		
OTHER FINANCING SOURCES (USES)						
Sale capital assets	90,000	90,000	-	(90,000)		
Transfers in	1,726,172	1,726,172	1,735,102	8,930		
Transfers out	(907,967)	(907,967)	(872,967)	35,000		
Total other financing sources and uses	908,205	908,205	862,135	(46,070)		
NET CHANGE IN FUND BALANCES	(970,931)	(1,128,181)	759,000	1,887,181		
FUND BALANCES, BEGINNING	8,535,115	8,535,115	8,535,115			
FUND BALANCES, ENDING	\$ 7,564,184	\$ 7,406,934	\$ 9,294,115	\$ 1,887,181		

NOTES TO BUDGETARY SCHEDULE

SEPTEMBER 30, 2012

Budgetary Information

The City follows these procedures in establishing its annual budget:

- 1) Prior to August 1, the City Manager submits to the City Council a proposed budget for the fiscal year beginning on the following October 1.
- 2) A public hearing is conducted to obtain taxpayer comments.
- 3) The budget is legally enacted by the City Council through passage of an ordinance prior to October 1.
- 4) Any revisions that alter the total budgeted expenditures of the Enterprise of Governmental Funds must be approved by the City Council.
- 5) Formal budgetary integration is employed as a management control device during the year for the General Fund.
- 6) Unused appropriations lapse at fiscal year-end and may not be carried over to the following fiscal year.
- 7) Budgeted amounts are as originally adopted or as amended by the City Council. There were no significant budgetary amendments made during fiscal year 2012.
- 8) The City Manager is authorized to adjust budget amounts; however, such revisions may not result in total budgeted expenditures (appropriations) in excess of budgeted revenues at the fund level without the approval of City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.
- 9) Budgetary statements and schedules are presented for all funds with legally adopted budgets. The Homeland Security Grant Fund, Lone Star Library Grant Fund, Health Facilities Development Corp. Fund, Housing Finance Corp. Fund and Industrial Development Authority Fund do not have legally adopted budgets and accordingly budget information is not presented for these funds.

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS FOR PARTICIPATION IN TEXAS MUNICIPAL RETIREMENT SYSTEM

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability	Annual Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
12/31/09	\$ 48,891,048	\$ 65,938,933	74.1%	\$ 17,047,885	\$ 17,977,471	94.8%
12/31/10	70,316,875	82,701,569	85.0%	12,384,694	18,199,826	68.0%
12/31/11	76,955,194	87,960,376	87.5%	11,005,182	18,354,272	60.0%

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

The *Special Revenue Funds* are used to account for specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

<u>Regional Jail</u> – to account for restricted revenues and expenditures of the regional jail operation utilized by the cities of DeSoto and Lancaster. The facilities house arrested persons for a maximum of 72 hours.

<u>Municipal Court Fund</u> – to account for municipal court fees collected through the court to provide for various municipal court security features or to enhance existing operations through technology.

<u>Police-Seized Funds</u> – Accounts for the revenue and expenditures related to the award of monies or property by the courts or federal government to the police department. The funds are expended for specified police department purposes.

Police Grant Fund – to account for grant funding received to support police operations.

<u>Homeland Security Grant Fund</u> – to account for grant funding received for homeland security purposes.

<u>Hotel Occupancy Tax Fund</u> – to account for tax revenue collected as a percentage of gross receipts for all hotel and motel temporary room rentals within the City. The funds are expended to promote tourism and culture in the City.

<u>Lone Star Library Grant</u> – to account for grant funding and related expenditures to support general library purposes.

<u>Health Facilities Development Corporation</u> – blended component unit whose purpose is to assist with the development of health care facilities for the maintenance of the public health in the City.

<u>Housing Finance Corporation</u> – blended component unit whose purpose is to assist with the financing of residential developments in the City.

<u>Industrial Development Authority</u>, <u>Inc.</u> – blended component unit whose purpose is to promote and develop commercial, industrial, manufacturing and medical research enterprises in the City.

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for the acquisition and construction of major capital facilities.

<u>Parks Capital Improvement Funds</u> – to account for the purchase and improvement of the City's parks. Financing is provided by general obligation bonds and contributions from developers.

<u>Public Facilities Capital Improvement Funds</u> – to account for the construction and improvement of various City facilities. Financing is provided by general obligation bonds, certificates of obligation and various contributions.

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2012

		Special Revenue	
	Regional Jail	Municipal Court	Police - Seized
ASSETS Cash and investments Due from other governments Accounts receivable	\$ 336,627 -	\$ 341,722	\$ 30,971
Total assets	\$ 336,627	\$341,722	\$ 30,971
LIABILITIES AND FUND BALANCES Liabilities:			
Accounts payable Accrued liabilities Due to other funds	\$ 5,312 27,051	\$ 3,893 1,069	\$ 2,651
Deferred revenue Total liabilities	32,363	4,962	7,602 10,253
Fund balances: Restricted:			
Public safety Economic development Capital projects	304,264 - -	336,760	20,718
Committed: Public health Development Assigned:	- -	- -	- -
Capital projects Total fund balances	304,264	336,760	20,718
Total liabilities and fund balances	\$ 336,627	\$ 341,722	\$ 30,971

Special Revenue Health Total Lone Star Homeland Facilities Housing Industrial Special Police Security Hotel Library Development Finance Development Revenue Grant Corp. Authority Funds Grant Occupancy Grant Corp. \$ 56,686 \$ 123,013 \$ \$ 472,630 \$ 18,352 \$ 29,016 1,409,017 57,495 57,495 109,756 138,901 248,657 56,686 57,495 18,352 29,016 582,386 261,914 1,715,169 \$ \$ \$ \$ 29,935 \$ \$ 41,791 28,120 47,448 47,448 100 138,901 146,603 47,448 30,035 138,901 263,962 56,686 10,047 728,475 552,351 552,351 18,352 18,352 123,013 29,016 152,029 18,352 29,016 56,686 10,047 552,351 123,013 1,451,207 18,352 \$ 56,686 57,495 582,386 261,914 29,016 1,715,169

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Continued) SEPTEMBER 30, 2012

		rks Capital	I	Public Facilities Capital provement		Total Capital Project Funds		Total Nonmajor overnmental Funds
ASSETS Cash and investments	\$	162,529	\$	602,400	\$	764,929	\$	2,173,946
Due from other governments		-		-		-		57,495
Accounts receivable Total assets	\$	162,529	\$	602,400	\$	764,929	\$ <u></u>	248,657 2,480,098
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$	-	\$	-	\$	-	\$	41,791
Accrued liabilities		-		-		-		28,120
Due to other funds		-		-		-		47,448
Deferred revenue				-		-	_	146,603
Total liabilities	_		_	-	_		_	263,962
Fund balances:								
Restricted:								
Public safety		-		-		-		728,475
Economic development		-		-		-		552,351
Capital projects		-		35,248		35,248		35,248
Committed:								
Public health		-		-		-		18,352
Development		-		-		-		152,029
Assigned:								
Capital projects	_	162,529		567,152	_	729,681	_	729,681
Total fund balances	_	162,529		602,400	_	35,248		2,216,136
Total liabilities and fund balances	\$ <u></u>	162,529	\$	602,400	\$	35,248	\$ <u></u>	2,480,098



STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Special Revenue									
	I	Regional Jail	N	Aunicipal Court	Police - Seized					
REVENUES Hotal accuracy tax	\$	_	¢	Φ.						
Hotel occupancy tax Fines and forfeitures	Ф	-	\$	69,133	\$	-				
Intergovernmental		527,468		09,133		25,067				
Charges for services		28,787		-		23,007				
Investment earnings		651		721		92				
Recreation services		-		-						
Miscellaneous		1,645		-		-				
Total revenues		558,551		69,854		25,159				
EXPENDITURES										
Current:										
General government		-		-		-				
Public safety: Police		784,580				57,130				
Fire		764,360		-		37,130				
Development services		_		_		_				
Financial services		_		46,821		_				
Public library		_		-		_				
Capital outlay		-		_		_				
Total expenditures		784,580		46,821		57,130				
EXPENDITURES (DEFICIENCY) OF REVENUES										
OVER (UNDER) EXPENDITURES	(226,029)		23,033	(31,971)				
OTHER FINANCING SOURCES (USES)										
Transfers in		263,734		-		-				
Transfers out				<u> </u>						
Total other financing sources and uses		263,734								
NET CHANGE IN FUND BALANCES		37,705		23,033	(31,971)				
FUND BALANCES, BEGINNING		266,559		313,727		52,689				
FUND BALANCES, ENDING	\$	304,264	\$	336,760	\$	20,718				

Special Revenue

							Spec	ial Rev							
Police Grant		Homeland Security Grant		Security Hotel		Lone Star Library Grant		Health Facilities Development Corp.		Housing Finance Corp.		Industrial Development Authority			Total Special Revenue Funds
\$	-	\$ -		\$	704,045	\$	-	\$	-	\$	-	\$	-	\$	704,045
	-	-			-		-		-		-		-		69,133
	10,043	120,	844		-		-		-		-		-		683,422
	-	-			5,536		-		-		-		-		34,323
	-	-			674		-		29		186		45		2,398
	-	-			4,800		-		-		-		-		4,800
	3,000				1,622					_	1,960		-		8,227
	13,043	120,	844		716,677				29	_	2,146		45	_	1,506,348
	-	-			610,791		-		-		243		-		611,034
					,										,
	3,292	92,	518		-		_		-		-		-		937,520
	_	18,	279		-		-		-		-		-		18,279
	-	-			-		-		-		-		-		-
	-	-			-		-		-		-		-		46,821
	-	-			-		617		-		-		-		617
_				_	-				_	_	-		_		_
_	3,292	110,	797		610,791		617		-	_	243	_		_	1,614,271
	9,751	10,	047		105,886	(617)	_	29	_	1,903	_	45	<u>(</u>	107,923)
	-	-			-		-		-		-		-		263,734
_				(112,082)					_				(112,082)
_				(112,082)					_				_	151,652
	9,751	10,	047	(6,196)	(617)		29		1,903		45		43,729
_	46,935				558,547		617	_	18,323	_	121,110		28,971	_	1,407,478
\$	56,686	\$ 10,	047	\$	552,351	\$		\$	18,352	\$_	123,013	\$	29,016	\$	1,451,207

(continued)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS (Continued) FOR THE YEAR ENDED SEPTEMBER 30, 2012

		ks Capital	Public Facilities Capital Improvement			Total Capital Project Funds		Total Nonmajor overnmental Funds
REVENUES Hotel occupancy tax	\$		\$		\$		\$	704,045
Fines and forfeitures	Ф	-	Ф	-	Ф	-	Ф	69,133
Intergovernmental		_		_		-		683,422
Charges for services		-		_		_		34,323
Investment earnings		383		1,992		2,375		4,773
Recreation services		-		-		-		4,800
Miscellaneous		_		_		_		8,227
		383		1.002	_	2,375	_	
Total revenues		383		1,992	_	2,373	_	1,508,723
EXPENDITURES Current:								
General government		-		-		-		611,034
Public safety:								
Police		-		-		-		937,520
Fire		-		-		-		18,279
Development services		-		1,800		1,800		1,800
Financial services		-		-		-		46,821
Public library		-		-		-		617
Capital outlay		17,884		545,650		563,534		563,534
Total Expenditures		17,884		547,450	_	565,334		2,179,605
EXPENDITURES (DEFICIENCY) OF REVENUES								
OVER (UNDER) EXPENDITURES	(17,501)	(545,458)	(562,959)	(670,882)
OTHER FINANCING SOURCES (USES)								
Transfers in		-		-		-		263,734
Transfers out							(112,082)
Total other financing sources and uses		_			_	-	_	151,652
NET CHANGE IN FUND BALANCES	(17,501)	(545,458)	(562,959)	(519,230)
FUND BALANCES, BEGINNING		180,030	1	,147,858		1,327,888		2,735,366
FUND BALANCES, ENDING	\$	162,529	\$	602,400	\$	764,929	\$	2,216,136





SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

DEBT SERVICE FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted	l Amounts		Variance with Final Budget - Positive	
	Original	Final	Actual	(Negative)	
REVENUES					
Property taxes	\$ 7,093,604	\$ 7,093,604	\$ 7,078,068	\$(15,536)	
Intergovernmental	263,664	263,664	377,431	113,767	
Investment earnings	7,000	7,000	5,593	(1,407)	
Total revenues	7,364,268	7,364,268	7,461,092	96,824	
EXPENDITURES					
Debt service:					
Principal	4,681,113	4,681,113	4,667,226	13,887	
Interest and other charges	3,426,925	3,686,425	3,642,280	44,145	
Total expenditures	8,108,038	8,367,538	8,309,506	58,032	
EXCESS (DEFICIENCY) OF REVENUES					
OVER (UNDER) EXPENDITURES	(743,770)	(1,003,270)	(848,414)	38,792	
OTHER FINANCING SOURCES (USES)					
Issuance of long-term debt	-	18,040,000	18,040,000	-	
Premium on issuance of bonds	-	3,220,774	3,220,773	(1)	
Payment to escrow agent	-	(21,001,274)	(21,001,274)	-	
Transfers in	148,126	148,126	742,635	594,509	
Total other financing sources and uses	148,126	407,626	1,002,134	594,508	
NET CHANGE IN FUND BALANCE	(595,644)	(595,644)	153,720	633,300	
FUND BALANCE, BEGINNING	1,450,009	1,450,009	1,450,009		
FUND BALANCE, ENDING	\$ 854,365	\$ 854,365	\$1,603,729	\$ 633,300	



STREET IMPROVEMENT FUND



SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

STREET IMPROVEMENT FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2012

	Budgeted Amounts						Fin	riance with al Budget - Positive
		Original		Final		Actual	(Negative)
REVENUES								
Intergovernmental	\$	30,000	\$	30,000	\$	-	\$(30,000)
Investment earnings	_	9,500		9,500		28,553		19,053
Total revenues		39,500		39,500		28,553	(10,947)
EXPENDITURES								
Current:								
Development services		-		-		9,626	(9,626)
Capital outlay		4,873,000		4,971,596		2,208,244		2,763,352
Total expenditures	_	4,873,000	_	4,971,596		2,217,870	_	2,753,726
EXCESS (DEFICIENCY) OF REVENUES								
OVER (UNDER) EXPENDITURES	(4,833,500)	(4,932,096)	(2,189,317)	(2,764,673)
OTHER FINANCING SOURCES (USES)								
Transfers in		573,189		573,189		573,189		-
Transfers out	_		_		(594,509)	(594,509)
Total other financing sources and uses		573,189		573,189	(21,320)	(594,509)
NET CHANGE IN FUND BALANCE	(4,260,311)	(4,358,907)	(2,210,637)	(3,359,182)
FUND BALANCE, BEGINNING	_1	10,680,183	_	10,680,183	_1	0,680,183		-
FUND BALANCE, ENDING	\$	6,419,872	\$	6,321,276	\$	8,469,546	\$ <u>(</u>	3,359,182)







SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

REGIONAL JAIL FUND

	Dud	geted Amounts		Variance with Final Budget - Positive
	Original		– Actual	(Negative)
	Originar	1 11101	- Tictuar	(regative)
REVENUES				
Intergovernmental	\$ 527,46	58 \$ 527,468	\$ 527,468	\$ -
Charges for services	-	27,000	28,787	1,787
Investment earnings	3,00	00 450	651	201
Miscellaneous	25,00	00 480	1,645	1,165
Total revenues	555,46	555,398	558,551	3,153
EXPENDITURES				
Current:				
Public safety - police	771,71	<u>791,201</u>	784,580	6,621
Total expenditures	771,71	791,201	784,580	6,621
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	(216,24	<u>(235,803)</u>	(226,029)	(3,468)
OTHER FINANCING SOURCES (USES)				
Transfers in	263,73	263,734	263,734	
Total other financing sources and uses	263,73	263,734	263,734	
NET CHANGE IN FUND BALANCE	47,48	36 27,931	37,705	(3,468)
FUND BALANCE, BEGINNING	266,55	59 266,559	266,559	
FUND BALANCE, ENDING	\$ 314,04	<u>45</u> \$ <u>294,490</u>	\$ 304,264	\$ <u>(</u> 3,468)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

MUNICIPAL COURT FUND

	Budgeted Amounts					Variance with Final Budget - Positive		
	(Original		Final		Actual	(N	legative)
REVENUES								
Fines and forfeitures	\$	71,000	\$	71,000	\$	69,133	\$(1,867)
Investment earnings		4,300		4,300		721	(3,579)
Total revenues		75,300		75,300		69,854	(5,446)
EXPENDITURES								
Current:								
Financial services		59,426		159,426		46,821		112,605
Capital outlay		8,000		8,000		=		8,000
Total expenditures		67,426		167,426	_	46,821		120,605
EXCESS (DEFICIENCY) OF REVENUES								
OVER (UNDER) EXPENDITURES		7,874	(92,126)		23,033	(126,051)
FUND BALANCE, BEGINNING		313,727		313,727		313,727		
FUND BALANCE, ENDING	\$	321,601	\$	221,601	\$	336,760	\$ <u>(</u>	126,051)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

POLICE - SEIZED FUND

		Budgeted	l Amou	ınts			Fina	ance with Budget - ositive
	(Original		Final		Actual	(N	egative)
REVENUES Intergovernmental Investment earnings Miscellaneous	\$	80,000 400 400	\$	80,000 400 400	\$	25,067 92 -	\$((<u>(</u>	54,933) 308) 400)
Total revenues		80,800		80,800		25,159	(55,641)
EXPENDITURES Current: Public safety: Police Total expenditures	<u>-</u>	60,000		80,000 80,000		57,130 57,130		22,870 22,870
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES		20,800		800	(31,971)	(78,511)
FUND BALANCE, BEGINNING		52,689		52,689		52,689		
FUND BALANCE, ENDING	\$	73,489	\$	53,489	\$	20,718	\$ <u>(</u>	78,511)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

POLICE GRANT FUND

		Budgeted Amounts Original Final				Actual		Variance with Final Budget - Positive (Negative)	
REVENUES		Jiigiilai		1 IIIui		rictuur	(111	ogative)	
Intergovernmental	\$	10,043	\$	10,043	\$	10,043	\$	-	
Miscellaneous		-		-		3,000		3,000	
Total revenues		10,043		10,043		13,043		3,000	
EXPENDITURES									
Current:									
Public safety:									
Police		3,411		10,432		3,292		7,140	
Total expenditures		3,411		10,432	_	3,292		7,140	
EXCESS (DEFICIENCY) OF REVENUES									
OVER (UNDER) EXPENDITURES		6,632	(389)		9,751	(4,140)	
FUND BALANCE, BEGINNING		46,935		46,935		46,935			
FUND BALANCE, ENDING	\$	53,567	\$	46,546	\$	56,686	\$ <u>(</u>	4,140)	

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

HOTEL OCCUPANCY FUND

				Variance with Final Budget -
	Budgeted	l Amounts		Positive
	Original	Final	Actual	(Negative)
REVENUES				
Hotel occupancy tax	\$ 530,000	\$ 530,000	\$ 704,045	\$ 174,045
Charges for services	-	-	5,536	5,536
Investment earnings	2,000	2,000	674	(1,326)
Miscellaneous			1,622	1,622
Total revenues	532,000	532,000	716,677	184,677
EXPENDITURES Current:				
General government	620,080	626,430	610,791	15,639
Total expenditures	620,080	626,430	610,791	15,639
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	(88,080)	(94,430)	105,886	169,038
OTHER FINANCING SOURCES (USES)				
Transfers out	(112,082)	(112,082)	(112,082)	
Total other financing sources and uses	(112,082)	(112,082)	(112,082)	
NET CHANGE IN FUND BALANCE	(200,162)	(206,512)	(6,196)	169,038
FUND BALANCE, BEGINNING	558,547	558,547	558,547	
FUND BALANCE, ENDING	\$ 358,385	\$ 352,035	\$ 552,351	\$ 169,038



CAPITAL PROJECTS FUNDS



SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PARKS CAPITAL IMPROVEMENT FUND

		Budgeted	Amou	ınts			Fina	ance with Budget - ositive
	(Original		Final		Actual	(N	egative)
REVENUES								
Investment earnings	\$	350	\$	350	\$	383	\$	33
Total revenues		10,350		10,350		383	(9,967)
EXPENDITURES								
Capital outlay		61,825		61,825		17,884		43,941
Total expenditures		61,825		61,825		17,884		43,941
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(51,475)	(51,475)	(17,501)	(53,908)
FUND BALANCE, BEGINNING		180,030		180,030		180,030		
FUND BALANCE, ENDING	\$	128,555	\$	128,555	\$	162,529	\$ <u>(</u>	53,908)

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

PUBLIC FACILITIES CAPITAL IMPROVEMENT FUND

	Budgeted	I Amounts		Variance with Final Budget - Positive
	Original	Final	Actual	(Negative)
REVENUES				
Investment earnings	\$	\$	\$1,992	\$1,992
Total revenues			1,992	1,992
EXPENDITURES Current:				
Development services	-	_	1,800	(1,800)
Debt service:			2,000	(1,000)
Interest and other charges	-	7,850	-	7,850
Capital outlay	287,500	1,408,071	545,650	862,421
Total expenditures	287,500	1,415,921	547,450	868,471
EXCESS (DEFICIENCY) OF REVENUES				
OVER (UNDER) EXPENDITURES	(287,500)	(1,415,921)	(545,458)	(866,479)
OTHER FINANCING SOURCES (USES)				
Transfers in		30,000		(30,000)
Total other financing sources and uses		30,000	-	(30,000)
NET CHANGE IN FUND BALANCE	(287,500)	(1,385,921)	(545,458)	(896,479)
FUND BALANCE, BEGINNING	1,147,858	1,147,858	1,147,858	
FUND BALANCE, ENDING	\$ 860,358	\$ <u>(238,063)</u>	\$ 602,400	\$ <u>(</u> 896,479)





STATEMENT OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

	Balance October 1, 2011	Additions	Deductions	Balance September 30, 2012
SOUTHWEST REGIONAL COMMUNICATIONS CENTER Assets:				
Cash and investments	\$ 482,487	\$_2,720,014	\$ 2,657,302	\$545,199
Total assets	\$ 482,487	\$ 2,720,014	\$ 2,657,302	\$ 545,199
Liabilities: Due to Southwest Regional Communications Center	\$ <u>482,487</u>	\$ <u>2,720,014</u>	\$ <u>2,657,302</u>	\$545,199
Total liabilities	\$ 482,487	\$ 2,720,014	\$ 2,657,302	\$ 545,199



(Discretely Presented Component Unit)

BALANCE SHEET

COMPONENT UNIT

SEPTEMBER 30, 2012

ASSETS Cash and investments Taxes receivable	\$	544,638 88,388
Total assets	\$	633,026
LIABILITIES AND FUND BALANCE Liabilities	\$	<u>-</u>
Fund balance: Restricted for park and park facilities projects Total fund balance	_	633,026
Total liabilities and fund balance	\$	633,026

RECONCILIATION OF THE COMPONENT UNIT BALANCE SHEET TO THE STATEMENT OF NET ASSETS

SEPTEMBER 30, 2012

Total fund balance - component unit			\$	633,026
Amounts reported for the component unit in the Statement of Net Assets different because:	s are			
Capital assets used in the component unit are not current financial resourand therefore are not reported in this fund financial statement. These conformations of the component unit are not current financial resourant and therefore are not reported in this fund financial statement.				
Land	\$	11,250		
Improvements other than buildings		5,324,530		
Accumulated depreciation	(2,572,444)		
				2,763,336
Some liabilities, are not due and payable in the current period and are included in the fund financial statement. These liabilities consist of:	not			
Bond issuance cost		79,715		
Accrued interest	(15,837)		
Long-term debt	(3,500,000)		
			<u>(</u>	3,436,122)
Net assets of component unit			\$ <u>(</u>	39,760)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

COMPONENT UNIT

REVENUES	
Sales taxes	\$ 494,086
Investment earnings	1,139
Total revenues	495,225
EXPENDITURES	
Current:	
Parks and leisure services	263,664
Debt service:	
Principal	145,000
Interest and other charges	62,100
Total expenditures	470,764
EXCESS (DEFICIENCY) OF REVENUES	
OVER (UNDER) EXPENDITURES	24,461
FUND BALANCE, BEGINNING	608,565
FUND BALANCE, ENDING	\$633,026

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF COMPONENT UNIT TO THE STATEMENT OF ACTIVITIES

Net change in fund balance - component unit:	\$	24,461
Amounts reported for the component unit in the Statement of Activities are different because:		
The component unit reports outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation in the current period.	(151,120)
In fiscal year 2012, the component unit agreed to pay the City \$1,720,000 over 10 years. This nonexchange transaction was not required to be reported in the fund financial statements. In contrast, this amount was treated as an expense in the Statement of Activities and a long-term liability in the Statement of Net Assets.	(1	,720,000)
The component unit reports bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. The component unit fund reports repayment of bond principal as an expenditure. In contrast, the Statement of Net Assets shows this as a reduction of long-term liabilities. Repayment of principal on long-term debt		145,000
Also, the component unit reports the effect of issuance cost and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Bond issuance costs	(7,971)
Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds: Accrued interest	<u>(</u>	7,956)
Change in net assets of component unit	\$ <u>(1</u>	,717,586)







STATISTICAL SECTION

This part of the City of DeSoto's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents	Page
Financial Trends	80 – 91
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	
Revenue Capacity	92 – 97
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	
Debt Capacity	98 – 101
These schedules present information to help the reader assess the affordability of the City's current levels of ourstanding debt and the City's ability to issue additional debt in the future.	
Demographic and Economic Information	102 – 103
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Operating Information	104 – 107
These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the government provides and the activities it performs.	

NET ASSETS BY COMPONENT (ACCRUAL BASIS OF ACCOUNTING) (UNAUDITED) LAST TEN FISCAL YEARS

Diago.	Vacan
F1SCal	i Year

		1 1500	1 1 001	
	2003	2004	2005	2006
Governmental activities: Invested in capital assets,				
net of related debt	\$ 53,474,880	\$ 70,653,054	\$ 72,273,595	\$ 72,469,145
Restricted	3,139,563	3,735,804	3,632,028	8,641,086
Unrestricted	3,940,470	1,541,787	5,775,203	8,680,251
Total governmental				
activities net assets	\$ 60,554,913	\$ 75,930,645	\$ 81,680,826	\$ 89,790,482
Business-type activities: Invested in capital assets,				
net of related debt	\$ 39,299,841	\$ 40,854,522	\$ 45,250,643	\$ 51,541,923
Unrestricted	8,793,448	8,908,479	8,284,326	10,045,425
Total business-type				
activities net assets	\$ 48,093,289	\$ 49,763,001	\$ 53,534,969	\$ 61,587,348
Primary government:				
Invested in capital assets,				
net of related debt	\$ 92,774,721	\$ 111,507,576	\$ 117,524,238	\$ 124,011,068
Restricted	3,139,563	3,735,804	3,632,028	8,641,086
Unrestricted	12,733,918	10,450,266	14,059,529	18,725,676
Total primary				
government net assets	\$ <u>108,648,202</u>	\$ <u>125,693,646</u>	\$ <u>135,215,795</u>	\$ <u>151,377,830</u>

Fiscal Year

		Fisca	ıl Year		
2007	2008	2009	2010	2011	2012
\$ 82,336,139 2,723,392 9,085,126	\$ 83,437,503 2,912,353 10,599,124	\$ 88,778,833 3,407,347 7,458,927	\$ 82,952,006 1,727,639 12,761,912	\$ 83,839,278 2,629,370 9,708,413	\$ 85,553,558 2,762,778 9,830,512
\$ 94,144,657	\$ 96,948,980	\$ 99,645,107	\$ 97,441,557	\$ 96,177,061	\$ 98,146,848
\$ 58,520,397 5,215,673	\$ 59,931,665 6,611,738	\$ 53,525,260 12,276,723	\$ 59,668,820 6,493,872	\$ 46,444,456 21,617,015	\$ 57,708,884 10,933,100
\$ 63,736,070	\$ 66,543,403	\$ 65,801,983	\$ 66,162,692	\$ 68,061,471	\$ 68,641,984
\$ 140,856,536 2,723,392 14,300,799	\$ 143,369,168 2,912,353 17,210,862	\$ 142,304,093 3,407,347 19,735,650	\$ 142,620,826 1,727,639 19,255,784	\$ 130,283,734 2,629,370 31,325,428	\$ 143,262,442 2,762,778 20,763,612
\$ <u>157,880,727</u>	\$ 163,492,383	\$ 165,447,090	\$ 163,604,249	\$ <u>164,238,532</u>	\$ 166,788,832

CHANGES IN NET ASSETS (ACCRUAL BASIS OF ACCOUNTING) (UNAUDITED)

LAST TEN FISCAL YEARS

				1 150	ai i cai			
		2003		2004		2005		2006
EXPENSES Governmental activities:								
General government	\$	1,149,638	\$	2,462,626	\$	3,015,728	\$	3,680,576
Public safety	Ψ	12,002,866	Ψ	12,867,055	Ψ	13,303,331	Ψ	14,206,475
Development services		5,743,011		6,158,295		6,237,838		6,657,838
Financial services		981.009		1,190,736		1,247,847		1,208,137
Information technology		531,258		522,981		535,177		569,664
Human resources		216,056		260,880		318,279		310,097
Parks and leisure services		2,193,790		2,811,670		3,169,717		4,198,907
Library services		784,290		707,025		709,381		761,034
Management services		1,872,482		-		-		-
Nondepartmental		1,046,154		_		_		_
Interest on long-term debt		2,964,088		3,243,056		3,067,496		3,262,049
Total governmental	-	2,501,000	_	3,213,000		2,007,190		3,202,019
_		20 494 642		20 224 224		21 604 704		24 954 777
activities expenses		29,484,642	_	30,224,324		31,604,794	-	34,854,777
Business-type activities:								
Water and sewer		10,462,141		10,680,755		11,127,247		12,034,001
Drainage		394,227		476,515		545,047		775,309
Sanitation		2,286,592		2,394,357		2,566,594		2,641,575
Total business-type	_	2,200,372		2,371,337	_	2,500,551		2,011,575
activities expenses		13,142,960		13,551,627		14,238,888		15,450,885
activities expenses	_	13,142,900		13,331,027	_	14,230,000	-	13,430,663
Total primary government								
program expenses	\$	42,627,602	\$	43,775,951	\$	45,843,682	\$	50,305,662
PROGRAM REVENUES								
Governmental activities:								
Charges for services:								
General administration	\$	1,518,649	\$	1,639,957	\$	1,649,883	\$	1,604,188
Public safety		2,194,992		2,473,235		2,831,249		2,823,888
Development services		684,164		1,071,045		1,121,560		940,001
Parks and leisure services		357,215		394,195		551,543		726,053
Library services		-		36,034		40,966		45,753
Financial services		-		-		3,150		4,749
Operating grants and contributions		85,877		587,439		1,093,302		1,462,364
Capital grants and contributions		209,505		2,178,920		3,822,649		5,157,461
Total governmental activities								
program revenues		5,050,402		8,380,825		11,114,302	_	12,764,457
Business-type activities:								
Charges for services:								
Water and wastewater		11,964,719		12,033,005		12,565,490		16,350,648
Drainage		1,053,210		1,092,471		1,284,077		1,235,750
Sanitation		2,866,494		2,607,559		2,811,408		2,772,209
Capital grants and contributions		-		-		2,033,231		4,281,581
Total business-type activities								
program revenues		15,884,423	_	15,733,035		18,694,206	_	24,640,188
Total primary government								
program revenues	\$ <u></u>	20,934,825	\$	24,113,860	\$	29,808,508	\$	37,404,645

Fiscal Year

					al Year					
2007		2008		2009		2010		2011		2012
\$ 5,116,336	\$	5,770,984	\$	3,827,242	\$	4,845,547	\$	5,217,799	\$	4,562,337
15,368,212		15,173,881		17,402,007		17,889,132		17,578,307		17,491,146
8,389,388		7,927,578		7,523,025		8,109,041		7,788,666		7,312,154
1,192,832		1,258,242		777,635		884,724		855,547		926,892
602,759		600,339		328,417		294,032		294,197		280,360
336,085		369,265		213,452		171,664		139,935		197,978
3,262,673		3,532,927		3,162,068		3,683,752		3,584,536		3,844,791
847,492		876,249		933,378		949,520		896,501		890,239
-		-		-		-		-		-
3,363,716		3,970,451		3,939,305		3,557,515		3,423,048		3,391,573
 3,303,710	-	3,970,431	_	3,939,303	_	3,337,313		3,423,048		3,391,373
 38,479,493		39,479,916	_	38,106,529	_	40,384,927		39,778,536	_	38,897,470
12,185,402		12,656,844		12 611 560		12 607 075		13,452,042		14,097,518
				12,611,568		12,697,975				
803,044		1,042,256		1,187,708		1,209,603		1,282,892		1,427,820
 2,916,041	_	3,064,111	_	2,889,531	_	2,935,666	_	2,957,452	_	3,246,026
 15,904,487	_	16,763,211	_	16,688,807	_	16,843,244	_	17,692,386	_	18,771,364
\$ 54,383,980	\$	56,243,127	\$	54,795,336	\$	57,228,171	\$	57,470,922	\$	57,668,834
\$ 1,619,187	\$	1,698,725	\$	989,675	\$	329,150	\$	226,158	\$	365,815
3,354,155		2,851,576		3,593,925		2,518,011		2,459,939		2,865,010
1,086,307		645,532		448,877		575,242		795,377		823,229
709,537		717,569		834,057		756,356		864,197		813,009
45,023		47,864		51,333		61,406		64,841		62,601
-		-		518		-		-		-
896,598		842,032		1,088,561		1,684,707		926,017		1,254,754
2,040,813		1,765,753		23,696		338,964		402,804		2,450,162
 9,751,620	_	8,569,051	_	7,030,642	_	6,263,836	_	5,739,333	_	8,634,580
12,579,614		13,808,696		14,036,444		14,155,822		16,680,611		16,138,436
1,389,414		1,497,912		1,447,012		1,463,866		1,472,674		1,458,904
3,029,504		3,296,873		2,880,996		3,199,311		3,244,899		3,428,857
 2,399,780		1,512,223	_	104,877	_	35,571	_	158,865	_	15,000
19,398,312		20,115,704		18,469,329		18,854,570		21,557,049		21,041,197
 17,370,312		20,113,704		10,707,327		10,034,370		21,001,049		21,071,177
\$ 29,149,932	\$	28,684,755	\$	25,499,971	\$	25,118,406	\$	27,296,382	\$	29,675,777

(continued)

CHANGES IN NET ASSETS (ACCRUAL BASIS OF ACCOUNTING) (UNAUDITED) (Continued)

LAST TEN FISCAL YEARS

				Fisca	ıl Year			
		2003		2004		2005		2006
NET (EXPENSE) REVENUES					-			_
Governmental activities	\$(24,434,240)	\$(21,843,499)	\$(20,490,492)	\$(22,090,320)
Business-type activities		2,741,463		2,181,408	_	4,455,318		9,189,303
Total primary government								
net expense	<u>(</u>	21,692,777)	(19,662,091)	(16,035,174)	(12,901,017)
GENERAL REVENUES AND OTHER CH	ANGES IN N	ET ASSETS						
Governmental activities:								
Taxes:								
Property		15,415,889		15,915,124		16,971,307		18,748,137
Other		7,954,201		7,888,477		7,994,954		8,944,583
Interest income		227,096		175,044		523,957		1,259,291
Gain (loss) on sales of assets		-		-		178,272		-
Other		808,921		341,489		-		-
Transfers		533,990		596,064	_	572,183		1,487,965
Total governmental activities		24,940,097	_	24,916,198		26,240,673		30,439,976
Business-type activities:								
Interest income		132,088		84,368		186,284		351,041
Gain (loss) on sales of assets		-		-	(37,461)		-
Other		-		-		-		-
Transfers	(533,990)	(596,064)	(572,183)	(1,487,965)
Total business-type activities	(401,902)	(511,696)	(423,360)	(1,136,924)
Total primary government	_	24,538,195	-	24,404,502	_	25,817,313		29,303,052
CHANGE IN NET ASSETS								
Governmental activities		505,857		3,072,699		5,750,181		8,349,656
Business-type activities	_	2,339,561		1,669,712		4,031,958		8,052,379
Total primary government	\$	2,845,418	\$	4,742,411	\$	9,782,139	\$	16,402,035

Year

					FISC	ii i ear					
	2007		2008		2009		2010		2011		2012
\$(28,727,873) 3,493,825	\$(30,910,865) 3,352,493	\$(31,075,887) 1,780,522	\$(34,121,091) 2,011,326	\$(34,039,203) 3,864,663	\$(30,262,890) 2,269,833
(25,234,048)	(27,558,372)	(29,295,365)	(32,109,765)	(30,174,540)	(27,993,057)
	20,479,714 8,968,049 1,857,677		22,051,523 9,535,661 1,434,605		21,562,536 8,628,339 314,323		20,998,395 8,899,286 42,494		21,392,377 9,042,389 83,020		20,673,781 9,498,834 70,204
	1,708,085		693,399		1,278,553		89,604 118,710 1,769,052		262,238 1,651,170		254,756 1,735,102
	33,013,525		33,715,188 148,239		31,783,751 55,674		31,917,541		32,431,194 28,799		32,232,677 45,782
<u>(</u>	1,708,085) 1,345,103)	<u>(</u>	693,399) 545,160)	<u>(</u>	30,208 1,278,553) 1,192,671)	<u>(</u>	87,006 1,769,052) 1,650,617)	<u>(</u>	- 1,651,170) 1,622,371)	<u>(</u>	1,735,102) 1,689,320)
	31,668,422		33,170,028		30,591,080		30,266,924		30,808,823		30,543,357
	4,285,652 2,148,722		2,804,323 2,807,333		707,864 587,851	(2,203,550) 360,709	(1,608,009) 2,242,292		1,969,787 580,513
\$	6,434,374	\$	5,611,656	\$	1,295,715	\$ <u>(</u>	1,842,841)	\$	634,283	\$	2,550,300

GOVERNMENTAL ACTIVITIES TAX REVENUES BY SOURCE (ACCRUAL BASIS OF ACCOUNTING) (UNAUDITED)

LAST TEN FISCAL YEARS

Fiscal Year	 Property Taxes	 Sales Tax	 Franchise Tax	 Other Taxes	_	Total
2003	\$ 15,415,889	\$ 4,449,567	\$ 3,260,547	\$ 244,087	\$	23,370,090
2004	15,915,124	4,479,320	3,182,732	226,425		23,803,601
2005	16,971,307	4,499,908	3,250,555	244,491		24,966,261
2006	18,748,137	4,680,468	3,848,098	416,017		27,692,720
2007	20,479,714	5,314,550	3,394,651	258,848		29,447,763
2008	22,051,523	5,802,926	3,336,906	395,829		31,587,184
2009	21,562,536	5,028,838	3,129,287	470,214		30,190,875
2010	20,998,395	5,532,796	2,794,521	571,969		29,897,681
2011	21,392,377	5,409,524	2,998,791	634,074		30,434,766
2012	20,673,781	5,929,029	2,835,277	734,528		30,172,615

FUND BALANCES GOVERNMENTAL FUNDS (MODIFIED ACCRUAL BASIS OF ACCOUNTING) (UNAUDITED) LAST TEN FISCAL YEARS

										Fisc	cal Y	ear							
		2003		2004		2005		2006		2007		2008		2009		2010	2011		2012
General fund																			
Reserved	\$	62,552	\$	52,164	\$	268,351	\$	36,619	\$	34,432	\$	46,495	\$	454,274	\$	221,638	\$ -	\$	-
Unreserved		4,665,093		5,171,857		6,255,230		7,066,881		6,780,425		6,853,977		7,157,520		6,964,196	-		-
Nonspendable:																			
Inventories		-		-		-		-		-		-		-		-	39,331		52,881
Committed:																			
Subsequent year's budget		-		-		-		-		-		-		-		-	528,025		557,178
Unassigned	_		_		_		_		_				_		_		 7,967,759	_	8,684,056
Total general fund	\$	4,727,645	\$_	5,224,021	\$	6,523,581	\$	7,103,500	\$	6,814,857	\$	6,900,472	\$	7,611,794	\$	7,185,834	\$ 8,535,115	\$	9,294,115
All other governmental funds																			
Reserved	\$	7,817,595	\$	8,664,063	\$	13,633,702	\$	18,715,559	\$	28,452,022	\$	22,030,806	\$	21,282,353	\$	18,072,628	\$ -	\$	-
Unreserved, reported in:																			
Special revenue funds	(18,891)		-		20,261	(147,372)	(155,816)	(267,389)	(296,834)	(375,719)	-		-
Nonspendable:																			
Note receivable		-		-		-		-		-		-		-		-	212,025		161,673
Restricted:																			
Debt service		-		-		-		-		-		-		-		-	1,450,009		1,603,729
Street improvements		-		-		-		-		-		-		-		-	9,080,205		7,480,942
Public safety		-		-		-		-		-		-		-		-	679,910		728,475
Economic development		-		-		-		-		-		-		-		-	558,547		552,351
Culture and recreation		-		-		-		-		-		-		-		-	617		-
Capital projects		-		-		-		-		-		-		-		-	1,327,888		35,248
Committed:																			
Public health		-		-		-		-		-		-		-		-	18,323		18,352
Development		-		-		-		-		-		-		-		-	150,081		152,029
Assigned:																			
Street improvements		-		-		-		-		-		-		-		-	1,387,953		826,931
Capital projects		_		_		_		_		_		_		_		_	_		729,681

Note: The City implemented GASB Statement No. 54 in fiscal year 2011.

CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS (MODIFIED ACCRUAL BASIS OF ACCOUNTING) (UNAUDITED) LAST TEN FISCAL YEARS

	Fiscal Year					
	2003	2004	2005	2006		
REVENUES						
Taxes	\$ 22,391,270	\$ 23,860,427	\$ 24,817,538	\$ 27,492,407		
Assessments	163,200	182,124	144,900	254,725		
Charges for services	1,019,276	1,107,287	1,487,348	1,766,040		
Recreation	208,516	190,640	239,278	243,027		
Licenses and permits	835,895	1,118,793	1,176,461	1,040,754		
Fines and forfeitures	786,313	917,481	1,011,588	1,110,188		
Interest	227,095	175,044	523,957	1,259,291		
Intergovernmental	724,580	573,336	991,055	1,338,761		
Administrative	1,487,826	1,487,825	1,487,825	1,487,825		
Other	428,059	886,443	858,620	1,603,733		
Total revenues	28,272,030	30,499,400	32,738,570	37,596,751		
EXPENDITURES						
General government	897,156	1,900,330	2,103,346	2,406,010		
Public safety	11,198,826	11,945,163	12,631,637	13,351,862		
Development services	2,850,195	3,453,256	3,355,538	3,508,849		
Parks and leisure services	1,818,675	2,239,495	2,508,218	3,555,902		
Library services	750,465	674,788	674,453	731,986		
Management services	1,799,522	- -	- -	- -		
Nondepartmental	963,022	481,358	867,069	958,652		
Human resources	211,749	260,322	314,769	309,404		
Financial services	957,101	1,183,734	1,229,697	1,199,965		
Information technology	497,859	475,104	490,368	528,544		
Capital outlay	5,307,680	4,939,559	6,113,105	7,687,797		
Debt service						
Principal	2,430,000	2,665,000	3,065,000	3,674,198		
Interest and service charges	2,965,131	2,708,732	2,653,315	3,492,404		

32,926,841

36,006,515

41,405,573

32,647,381

Total expenditures

Fiscal Year

	Fiscal Year										
	2007		2008		2009		2010		2011		2012
\$	29,326,330	\$	31,567,635	\$	30,365,197	\$	29,908,440	\$	30,175,453	\$	30,572,800
	73,875		23,400		-		-		-		-
	1,819,581		2,095,110		1,634,730		1,627,574		1,696,669		1,921,012
	229,686		227,719		860,012		748,192		820,760		796,815
	1,174,424		721,068		644,884		732,293		795,377		823,229
	1,153,583		1,074,968		984,317		1,096,452		1,054,477		958,534
	1,857,677		1,434,605		314,323		76,403		83,020		70,204
	900,669		844,407		1,112,257		1,297,146		1,278,510		2,072,020
	1,546,945		1,546,945		-		-		-		-
_	615,677	_	662,003	_	710,354	_	535,208	_	257,910	_	156,764
_	38,698,447		40,197,860	_	36,626,074	_	36,021,708	_	36,162,176		37,371,378
	3,583,153		2,334,303		1,279,890		1,961,081		2,622,418		2,631,101
	14,499,761		14,387,972		16,117,852		16,653,927		16,981,677		16,591,396
	3,917,629		3,856,422		3,521,060		3,551,797		3,340,924		3,042,163
	2,951,319		3,166,879		2,913,823		3,234,926		3,186,277		3,222,956
	814,602		870,217		889,791		935,633		879,457		869,133
	-		-		-		-		-		-
	1,053,341		2,933,840		1,358,466		2,067,520		1,288,744		1,386,474
	334,416		347,323		195,881		167,715		140,181		197,010
	1,183,605		1,241,631		713,569		778,779		727,046		762,721
	570,323		582,721		312,204		284,355		293,953		274,064
	9,380,677		15,089,860		9,203,386		4,362,868		3,755,708		3,524,766
	4,185,487		4,176,776		4,531,913		4,140,141		4,641,948		4,989,020
	3,861,639		4,069,494		3,922,904		3,527,769		3,602,843		3,692,322
_	_	-		_		-		_		_	
_	46,335,952	_	53,057,438		44,960,739	_	41,666,511	_	41,461,176	_	41,183,126

(continued)

CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS (MODIFIED ACCRUAL BASIS OF ACCOUNTING) (UNAUDITED)

(Continued) LAST TEN FISCAL YEARS

	Fiscal Year					
	2003	2004	2005	2006		
EXCESS OF REVENUES						
OVER (UNDER)						
EXPENDITURES	\$ <u>(4,375,351)</u>	\$ <u>(2,427,441)</u>	\$ <u>(3,267,945)</u>	\$(3,808,822)		
OTHER FINANCING						
SOURCES (USES)						
Issuance of long-term debt	10,926,910	4,473,429	29,925,222	7,815,000		
Other financial sources (uses)	239,740	24,981	1,623,874	-		
Payment to refunding escrow agent	(10,165,000)	(1,305,298)	(22,563,874)	-		
Transfers in	1,734,655	4,814,323	3,559,037	5,769,465		
Transfers out	(1,200,665)	(4,218,259)	(2,986,854)	(4,281,500)		
Total other financing						
sources (uses)	1,535,640	3,789,176	9,557,405	9,302,965		
NET CHANGE IN						
FUND BALANCES	(2,839,711)	1,361,735	6,289,460	5,494,143		
FUND BALANCES, BEGINNING	15,366,063	12,526,349	13,888,084	20,177,544		
PRIOR PERIOD ADJUSTMENT		<u> </u>				
FUND BALANCES, ENDING	\$ 12,526,352	\$ 13,888,084	\$ 20,177,544	\$ 25,671,687		
DEBT SERVICE AS A PERCENTAGE						
OF NONCAPITAL EXPENDITURES	<u>19.7</u> %	<u>19.2</u> %	<u>19.1</u> %	21.3%		

T: 1	T 7
Fiscal	Year

FISCAL YEAR									
	2007	2008	2009	2010	2011	2012			
\$ <u>(</u>	7,637,505)	\$(12,859,578)	\$(8,334,665)	\$ <u>(</u> 5,644,803)	\$(5,299,000)	\$(3,811,748)			
<u>(</u>	15,510,000 30,273 - 6,988,814 5,280,729) 17,248,358	5,690,000 29,005 - 5,368,659 (4,675,260) 	14,105,000 510,352 (8,281,298) 5,695,409 (4,416,856) 7,612,607	755,000 130,802 (724,621) 7,396,548 (5,627,496) 1,930,233	3,314,406 189,967 (1,338,613) 2,981,635 (1,330,465) 3,816,930	18,040,000 3,220,773 (21,001,274) 3,314,660 (1,579,558) 1,994,601			
<u>(</u>	9,610,853 25,671,687 171,477) 35,111,063	(6,447,174) 35,111,063 - \$ 28,663,889	(722,058) 28,663,889 655,482 \$ 28,597,313	(3,714,570) 28,597,313 \$\frac{24,882,743}{}	(1,482,070) 24,882,743 	(1,817,147) 23,400,673 \$\frac{21,583,526}{}			
	21.8%	21.7%	23.6%	20.5%	22.0%	23.1%			

GENERAL GOVERNMENTAL TAX REVENUES BY SOURCE (MODIFIED ACCRUAL BASIS OF ACCOUNTING) (UNAUDITED)

LAST TEN FISCAL YEARS

							Hotel			
Fiscal Property		Sales		Franchise		Occupancy				
Year		Taxes	 Tax		Tax		Tax		Total	
2003	\$	14,437,069	\$ 4,449,567	\$	3,260,547	\$	244,087	\$	22,391,270	
2004		15,971,951	4,479,320		3,182,732		226,424		23,860,427	
2005		16,822,584	4,499,908		3,250,555		244,491		24,817,538	
2006		18,715,056	4,680,468		3,848,098		248,785		27,492,407	
2007		20,358,281	5,314,550		3,394,651		258,848		29,326,330	
2008		22,031,974	5,802,926		3,336,906		395,829		31,567,635	
2009		21,774,805	5,056,041		3,129,287		405,064		30,365,197	
2010		20,972,154	5,532,796		2,794,521		575,384		29,874,855	
2011		21,133,064	5,409,524		2,998,791		597,292		30,138,671	
2012		21,093,055	5,929,029		2,816,188		704,045		30,542,317	

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (UNAUDITED)

LAST TEN FISCAL YEARS

Fiscal Year	 Real Property Assessed Value	Pe	Assessed Value	 Total Assessed Value	D	Total irect Tax Rate
2003	\$ 1,900,562,860	\$	342,966,010	\$ 2,243,528,870	\$	0.659
2004	2,146,953,330		309,732,550	2,456,685,880		0.659
2005	2,357,730,310		308,085,090	2,665,815,400		0.685
2006	2,517,430,840		298,440,930	2,815,871,770		0.698
2007	2,683,144,134		276,411,696	2,959,555,830		0.710
2008	2,667,601,748		396,884,124	3,064,485,872		0.700
2009	2,540,797,154		397,930,090	2,938,727,244		0.700
2010	2,618,725,080		426,359,160	3,045,084,240		0.700
2011	2,614,231,350		430,596,100	3,044,827,450		0.735
2012	2,578,810,970		466,503,930	3,045,314,900		0.757

Assessed values are established by the Dallas Central Appraisal District on the basis of 100% of appraised values.

PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS PER \$100 ASSESSED VALUE) (UNAUDITED) LAST TEN FISCAL YEARS

Fiscal Year	General Fund	Debt Service Fund	Total	Dallas County	Dallas County Hospital	Dallas County Community College	Total City, County, Hospital and College
2003	\$ 0.453	\$ 0.206	\$ 0.659	\$ 0.209	\$ 0.254	\$ 0.078	\$ 1.200
2004	0.4660	0.1930	0.6590	0.209	0.254	0.078	1.200
2005	0.4760	0.2090	0.6850	0.214	0.254	0.082	1.235
2006	0.4860	0.2120	0.6980	0.219	0.254	0.081	1.252
2007	0.4860	0.2240	0.5696	0.233	0.254	0.080	1.137
2008	0.4860	0.2140	0.5696	0.233	0.254	0.089	1.146
2009	0.4960	0.2040	0.7000	0.233	0.274	0.098	1.305
2010	0.4960	0.2040	0.7000	0.620	0.271	0.099	1.690
2011	0.5050	0.2300	0.7350	0.253	0.271	0.100	1.359
2012	0.5049	0.2525	0.7574	0.243	0.271	0.119	1.391

Note: Tax rate is at 100% of market value

 DeSoto ISD	County Col	tal City, y, Hospital, lege and Soto ISD]	Dallas ISD	Count Co.	tal City, y, Hospital, llege and llas ISD	Dui	ncanville ISD	Count Co	otal City, ty, Hospital, llege and anville ISD
\$ 1.710	\$	2.910	\$	1.640	\$	2.840	\$	1.855	\$	3.055
1.710		2.910		1.640		2.840		1.855		3.055
1.790		3.025		1.688		2.923		1.866		3.101
1.760		3.012		1.503		2.755		1.736		2.988
1.490		2.627		1.250		2.387		1.418		2.555
1.510		2.656		1.183		2.329		1.418		2.564
1.490		2.795		1.271		2.576		1.418		2.723
1.490		3.180		1.240		2.930		1.420		3.110
1.440		2.799		1.290		2.649		1.418		2.777
1.440		2.831		1.290		2.681		1.430		2.821

PRINCIPAL TAXPAYERS (UNAUDITED) CURRENT YEAR AND NINE YEARS AGO

			20	012				2	2003	
Taxpayer		Taxable Assessed Valuation (2)	Type of Business	Rank	Percentage of Total Taxable Assessed Valuation	Percentage of Top Ten Taxpayers to Assessed Valuation	Taxable Assessed Valuation (1)	Rank	Percentage of Total Taxable Assessed Valuation	Percentage of Top Ten Taxpayers to Assessed Valuation
Solar Tubines, Inc.	\$	172,922,930	Manufacturing	1	5.68%	42.92%	\$ 114,820,270	1	4.67%	39.75%
McGraw Hill/School		82,743,060	Manufacturing	2	2.72%	20.54%	74,398,010	2	3.03%	25.76%
WalMart Stores Texas LP		33,051,830	Retail/Warehouse	3	1.09%	8.20%	-		- %	- %
Oncor Electric Delivery		22,813,970	Public Utility	4	0.75%	5.66%	-		- %	- %
DeSoto Apartments, LTD		19,600,000	Apartments	5	0.64%	4.86%	-		- %	- %
DeSoto Ridge Apartments LTD		15,725,000	Apartments	6	0.52%	3.90%	-		- %	- %
Cintas Corporation		14,973,440	Retail/Uniforms	7	0.49%	3.72%	-		- %	- %
WRH Properties/Mt. Vernon, Inc.		14,057,990	Apartments	8	0.46%	3.49%	13,700,000	4	0.56%	4.74%
Maclay Carlin DeSoto LTD		13,930,660	Shopping Center	9	0.46%	3.46%	10,860,000	7	0.44%	3.76%
Shaw Feddern LP		13,095,430	Shopping Center	10	0.43%	3.25%	-		- %	- %
Texas Utilities Electric Co.		-	Utility		- %	- %	20,366,860	3	0.83%	7.05%
Albertson, Inc.		-	Retail		- %	- %	12,629,060	6	0.52%	4.37%
Southwestern Bell Telephone		-	Utility		- %	- %	10,014,510	8	0.41%	3.47%
Stanley, Douglas		-	Automotive		- %	- %	9,640,420	9	0.39%	3.34%
East Wells III Inc.		-	Investments		- %	- %	13,504,830	5	0.55%	4.68%
East Townsend Square II, Ltd.	_	-	Investments		%	%	8,899,310	10	0.36%	3.08%
Totals	\$	402,914,310			13.24%	100.00%	\$ 288,833,270		11.76%	100.00%

(1) Source - DeSoto Joint tax office

(2) Source - Dallas County tax office

PROPERTY TAX LEVIES AND COLLECTIONS (UNAUDITED) LAST TEN FISCAL YEARS

	Total Tax	Collected V Fiscal Year o		C	ollections	Total Collecti	ons to Date
Fiscal Year Ended	Levied for Fiscal Year	Amount	Percentage of Levy	_	Subsequent Years	Amount	Percentage of Levy
2003	\$ 12,802,356	\$ 12,331,229	96.32%	\$	286,974	\$ 12,618,203	98.56%
2004	13,899,107	13,635,024	98.10%		257,292	13,892,316	99.95%
2005	16,698,546	15,705,410	94.05%		607,320	16,312,730	97.69%
2006	16,535,406	15,993,668	96.72%		369,744	16,363,412	98.96%
2007	19,915,679	19,114,409	95.98%		578,349	19,692,758	98.88%
2008	21,395,308	20,702,532	96.76%		400,308	21,102,840	98.63%
2009	21,379,787	20,812,339	97.35%		296,735	21,109,074	98.73%
2010	20,746,013	20,277,877	97.74%		288,711	20,566,588	99.14%
2011	20,692,471	20,324,347	98.22%		178,225	20,502,572	99.08%
2012	21,182,362	20,705,884	97.75%		-	20,861,140	98.48%

Sources: City of DeSoto Joint Tax office and Dallas County tax office

RATIOS OF OUTSTANDING DEBT BY TYPE (UNAUDITED) LAST TEN FISCAL YEARS

		Governmental	Act	ivities		_	Business-ty	pe A	Activities						
Fiscal Year	 General Obligation Bonds	Certificates of Obligation		Notes Payable	 Capital Leases	_	General Obligation Bonds		Certificates of Obligation	_	Total Primary Government	of Po	entage ersonal ome*	<u>C</u>	Per apita*
2003	\$ 42,719,247	\$ 18,420,792	\$	-	\$ -	\$	5 2,160,000	\$	2,030,000	\$	65,330,039		-	\$	1,557
2004	44,680,737	17,250,102		-	-		1,305,000		3,030,000		66,265,839		-		1,545
2005	54,617,226	11,408,460		2,045,222	749,921		395,000		4,460,000		73,675,829		-		1,619
2006	58,923,028	11,243,460		1,855,989	634,262		-		5,350,000		78,006,739		-		1,656
2007	61,948,256	19,848,460		1,671,789	512,747		-		5,140,000		89,121,252		6.98%		1,872
2008	63,703,255	19,923,459		1,482,689	385,071		-		4,920,000		90,414,474		6.58%		1,868
2009	61,401,561	22,478,459		1,291,852	290,796		1,376,694		8,500,000		95,339,362		7.28%		1,958
2010	59,120,223	21,250,000		1,095,105	188,241		1,212,833		13,125,000		95,991,402		6.52%		1,986
2011	55,373,650	21,995,000		892,040	518,768		1,326,351		15,680,000		95,785,809		6.91%		1,953
2012	54,005,759	15,865,000		678,926	410,089		708,576		14,985,000		86,653,350		5.80%		1,767

Notes: Personal income data unavailable prior to fiscal year 2007.

^{*} See table 15 for personal income and population data.

RATIOS OF NET GENERAL BONDED DEBT TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA (UNAUDITED) LAST TEN FISCAL YEARS

Fiscal Year	Population	Assessed Value (1)	Total Bonded Debt (2)	Debt Services Monies Available	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2003	41,108	\$ 2,243,528,870	\$ 65,330,039	\$ 1,336,617	\$ 63,993,422	2.85%	\$ 1,557
2004	42,894	2,456,685,880	66,265,839	1,312,086	64,953,753	2.64%	1,514
2005	45,514	2,665,815,400	70,880,686	1,244,114	69,636,572	2.61%	1,530
2006	47,109	2,815,871,770	75,516,488	1,323,212	74,193,276	2.63%	1,575
2007	47,600	2,959,555,830	89,121,252	1,720,235	87,401,017	2.95%	1,836
2008	48,391	3,064,485,872	90,414,474	2,254,215	88,160,259	2.88%	1,822
2009	48,700	2,938,727,244	95,339,362	1,831,987	93,507,375	3.18%	1,920
2010	48,322	3,045,084,240	95,991,402	2,159,684	93,831,718	3.08%	1,942
2011	49,047	3,044,827,450	94,375,001	1,450,009	92,924,992	3.05%	1,895
2012	49,047	3,045,314,900	86,653,350	1,693,183	84,960,167	2.79%	1,732

Notes:

- (1) Beginning 1992, assessed values are determined by the Dallas Central Appraisal District.
- (2) Includes all long-term certificates of obligation and general obligation debt.

COMPUTATION OF DIRECT AND OVERLAPPING DEBT (UNAUDITED) SEPTEMBER 30, 2012

Taxing Jurisdiction	Total Tax Supported Debt (1)	Percentage Applicable	Overlapping Debt
City of DeSoto	\$ 69,870,759	100.00%	\$ 69,870,759
Overlapping Debt DeSoto Independent School District	137,670,325	85.02%	117,047,310
Dallas County	121,605,000	1.79%	2,176,730
Dallas Independent School District	2,992,045,000	0.61%	18,251,475
Dallas County Community College District	374,265,000	1.79%	6,699,344
Dallas County Hospital District	705,000,000	1.79%	12,619,500
Duncanville Independent School District	150,421,348	7.25%	10,905,548
Subtotal overlapping debt	4,481,006,673		167,699,906
Total direct and overlapping debt	\$ 4,550,877,432		\$ 237,570,665
Ratio of direct and overlapping bonded debt to taxable assessed valuation			9.42%
Per capita direct and overlapping bonded debt			\$5,074

Source: First Southwest Company

⁽¹⁾ Includes general obligation bonds and certificates of obligation.

COMPUTATION OF LEGAL DEBT MARGIN (UNAUDITED) FOR THE YEAR ENDED SEPTEMBER 30, 20012

Net Assessed Value		\$	2,779,938,575
Plus: Exempt Property		_	265,376,325
Total Assessed Value		_	3,045,314,900
Debt limit - (10%) of total assessed value			304,531,490
Less: amount of debt applicable to debt limit:			
Total bonded debt (including special assessment bonds)	\$ 69,870,759		
Less: assets in debt service funds available for payment of principal	 1,448,875	_	68,421,884
Legal Debt Margin		\$ <u></u>	236,109,606

DEMOGRAPHIC STATISTICS (UNAUDITED) LAST TEN FISCAL YEARS

Fiscal Year	Population	Estimated Median Family Household Income (1)	Personal Income* (2)	Per Capita Personal Income*	Median Age	Education Level in Years of Formal Schooling	School Enrollment (3)	Unemployment Rate (4)
2003	41,108	\$ 76,359	-	-	37	High School + 2 yrs.	6,806	4.8%
2004	42,894	69,892	-	-	36	High School + 2 yrs.	7,299	5.9%
2005	45,514	77,844	-	-	36	High School + 2 yrs.	7,915	5.7%
2006	47,109	72,726	-	-	36	High School + 2 yrs.	7,898	5.5%
2007	47,600	62,960	1,277,489	27	37	High School + 2 yrs.	8,700	3.0%
2008	48,391	62,960	1,373,095	28	37	High School + 2 yrs.	8,884	6.2%
2009	48,700	78,020	1,308,764	27	37	High School + 2 yrs.	9,063	6.7%
2010	48,322	75,488	1,472,710	30	37	High School + 2 yrs.	9,020	8.2%
2011	49,047	78,020	1,499,806	30	38	High School + 2 yrs.	8,995	3.0%
2012	49,047	58,711	1,494,805	27	38	High School + 2 yrs.	8,972	7.3%

Sources:

- (1) DeSoto Economic Development Corporation (Claritas)
- (2) US Census Bureau
- (3) DeSoto Independent School District
- (4) Texas Workforce Commission

Note: *Amount presented in thousands of dollars

Personal income data is unavailable prior to fiscal year 2007.

PRINCIPAL EMPLOYERS (UNAUDITED) CURRENT AND NINE YEARS AGO

		2012			2003	
			Percentage			Percentage
			of Total City			of Total City
Employer	Employees	Rank	Employment	Employees	Rank	Employment
DaCata ICD	024	1	2.700/	779	1	2.600/
DeSoto ISD	924	1	3.70%	778	1	3.60%
Solar Turbines	400	2	1.60%	214	3	0.99%
City of DeSoto	356	3	1.42%	313	2	1.45%
Marten Transport	300	4	1.20%	-		- %
DIAB	244	5	0.98%	200	4	0.93%
WalMart Distribution	240	6	0.96%	-		- %
Williamsburg Village	210	7	0.84%	-		- %
Tom Thumb	150	8	0.60%	150	5	0.69%
Albertson's	126	9	0.50%	126	7	0.58%
Kroger	125	1	0.50%	125	9	0.58%
Winn-Dixie	-		- %	125	8	0.58%
McGraw-Hill	-		- %	140	6	- %
DW Distribution, Inc.			%	124	10	0.57%
	3,075		12.30%	2,295		9.97%

Source: DeSoto, Texas - Community Profile provided by DEDC.



FULLTIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION (UNAUDITED)

LAST TEN FISCAL YEARS

Fiscal Year Function General government Public safety Development services Parks and leisure services Finance Library Human resources Information technology Water and sewer Drainage Sanitation

Source: City of DeSoto Human Resource Department

OPERATING INDICATORS BY FUNCTION (UNAUDITED)

LAST TEN FISCAL YEARS

Fiscal Year

		Fiscal Y	Year	
Function	2003	2004	2005	2006
General government				
Number of public information requests processed	35	35	55	55
Public safety				
Number of youth outreach programs held	34	39	53	40
Number of senior citizen symposiums held	12	8	44	8
Number of citizen police academics per year	3	2	3	2
Fire code inspections completed	412	479	466	445
Development services				
Traffic signal inspections	192	194	194	168
Parks and leisure services				
Total fitness facility memberships	3,839	3,125	4,325	4,342
Total swimming pool attendance	18,873	15,266	18,873	15,306
Library				
Total children's' story time programs	31	32	43	47
Human resources				
Number of salary surveys completed	8	8	8	14
Finance				
Municipal court cases filed	12,567	13,427	13,399	12,923
Information technology				
Number of City computers replaced annually	43	43	49	67
Water and sewer				
Number of touch read meters changed out	1,413	748	865	900
Number of meters read monthly	13,340	13,994	14,100	14,700
Drainage				
Number of easements acquired for				
project construction	7	5	4	4
Sanitation				
Number of existing intersection				
landscapes renovated annually	1	1	1	1

Source: Information provided by the head of each department.

Fiscal Year

Fiscal Year												
2007	2008	2009	2010	2011	2012							
75	75	2,018	86	2,023	2,320							
40	21	10	11	10	9							
10	7	1	1	1	1							
2	2	1	2	1	2							
450	432	423	978	835	756							
168	192	204	85	68	68							
5,493	6,025	6,405	5,780	4,861	6,347							
-	17,830	16,887	15,648	17,148	16,474							
35	33	98	32	53	57							
8	14	5	5	4	24							
44.074		44.040	42.40.5	40.400	0.407							
14,271	14,117	11,342	12,106	10,499	9,105							
77	64	63	8	65	82							
1,500	354	629	1,189	1,338	1,002							
15,250	15,489	15,748	15,879	16,008	15,480							
22,22	-2,12	-2-,2	,,	20,000	,							
		_			2							
4	-	5	1	-	3							
1	1	2	3	4	6							

CAPITAL ASSET STATISTICS BY FUNCTION (UNAUDITED) LAST TEN FISCAL YEARS

				Fiscal Year						
Function	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public safety										
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	3	3	3	3	3	3	3	3	3	3
Development services										
Lane Miles of streets	452	452	452	452	466	473	484	391	491	478
Miles of alleys	102	102	102	102	90	96	96	94	91	77
Traffic signals	14	14	14	14	15	16	17	17	17	77
Parks and recreation										
Number of parks	19	19	19	19	19	19	19	19	19	19
Civic centers	1	1	1	1	1	1	1	1	1	1
Swimming pools	1	1	1	1	1	1	1	1	1	1
Theater playhouses	1	1	1	1	1	1	1	1	1	1
Library										
Number of libraries	1	1	1	1	1	1	1	1	1	1
Water and sewer										
Water pumping capacity	18 mg/day	18 mg/day	18 mg/day	18 mg/day	35 mg/day	39.5 mg/day	39.5 mg./day	39.5 mg./day	39.5 mg./day	39.5 mg./day
Elevated water storage	5 mg.	5 mg.	5 mg.	5 mg.	5 mg.	5 mg.	5 mg.	5 mg.	5 mg.	5 mg.
Ground storage	13 mg.	13 mg.	13 mg.	13 mg.	13 mg.	13 mg.	13 mg.	13 mg.	13 mg.	13 mg.
~	_	_	_	_	_	_	_	•	•	•







REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the City of Council City of DeSoto, Texas

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of DeSoto, Texas, as of and for the year ended September 30, 2012, which collectively comprise the City of DeSoto, Texas' basic financial statements and have issued our report thereon March 19, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of DeSoto, Texas is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of DeSoto, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of DeSoto, Texas' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of DeSoto, Texas' internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies in internal control over financial reporting (Items 2012-1, 2012-2 and 2012-3). A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of DeSoto, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the City's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

March 19, 2013

Patillo, Brown & Hill, L.L.P.

SCHEDULE OF FINDINGS AND RESPONSES

SEPTEMBER 30, 2012

Finding 2012-1:

Condition: Many of the decentralized functions of the City such as Parks and

Leisure, Municipal Court, and Utilities operate in systems that are manually interfaced with the City's accounting system. There are currently no standard procedures in place to ensure that the activity recorded in these decentralized functions is being properly recorded

in the City's general ledger.

<u>Criteria</u>: Reconciliation procedures are independent checks of the accounting

system to identify errors and misrepresentations. Reconciliations should take place after the fact, by an individual who is not directly involved with the transaction or task being verified. Through reconciliation procedures, management can assess the performance of individuals, the integrity of the transaction processing system, and the

correctness of the data contained in accounting records.

<u>Cause of Condition</u>: Internal controls are currently inadequate to ensure that the activity

recorded in these decentralized systems is reconciled to the activity

recorded in the City's general ledger.

Effect of Condition: A weak internal control structure can make it possible for errors or

other misrepresentations to go long periods of time without being

detected.

Recommendation: Controls need to be put in to place that will ensure that the activities

occurring at Parks and Leisure, Municipal Court, and Utilities are reconciled to the general ledger balance on at least a monthly basis with any differences investigated and corrected in a timely manner.

Management's Response: Management is aware of this condition and all decentralized functions

are now being automatically interfaced with the City's accounting system. Management is currently working on the procedures to reconcile monthly the decentralized functions to the City's general ledger. This process will allow us to reconcile monthly beginning

October 2012.

Contact Person Responsible

for Corrective Action: Tracy L. Cormier, Accounting Manager

Edena Atmore, Managing Director of Financial Services

Anticipated Completion Date: March 31, 2013

(continued)

SCHEDULE OF FINDINGS AND RESPONSES (Continued) SEPTEMBER 30, 2012

Finding 2012-2:

Condition: Controls were not in place to ensure that only authorized individuals

had access to the employee master file. Also, many changes to the payroll transaction cycle were made during the year to eliminate segregation of duties issues that have been noted in prior years, but issues still existed with segregation of duties throughout the year.

Criteria: An essential element of any preventative control system is to have

segregation of duties established in such a manner that no single individual could perpetrate an error and conceal it without it being

discovered on a timely basis.

<u>Cause of Condition:</u> There are inadequate controls over segregation of duties within the

payroll processing function.

Effect of Condition: There is a greater risk that errors or misappropriation could go

undetected for an extended period of time.

<u>Recommendation</u>: Access to modify pay rates and other employee information should be

limited to areas like Human Resources which are not involved in the processing of payroll. Additionally, reconciliation and review procedures should be put into place after payroll is processed to ensure that what was paid agrees to the underlying time records

entered by employees.

Management's Response: Management is aware of this condition and is now in discussions with

its financial software vendor to put in controls that will limit access to Human Resources which does not process payroll. Management is also working on procedures to put in place to verify that the amount

paid matches time records entered by employees.

Contact Person Responsible

for Corrective Action: Edena Atmore, Managing Director of Financial Services

Kathleen Shields, Human Resources Director

Anticipated Completion Date: April 30, 2013

(continued)

SCHEDULE OF FINDINGS AND RESPONSES (Continued) SEPTEMBER 30, 2012

Finding 2012-3:

Condition: Currently, user access rights are given out to employees for certain

software systems by department heads instead of IT and there are no policies requiring that the user access rights are monitored on a regular basis. Furthermore, there are no policies in place to ensure that terminated employees access rights are promptly removed. Additionally, there are no policies requiring a password for any of the software systems used by the City, passwords are never required to be changed, and accounts are not locked when a large number of failed

access attempts are made.

<u>Criteria</u>: Written procedures, instructions, and assignments of duties will

prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can

result in inaccurate or untimely accounting records.

<u>Cause of Condition</u>: No formal policies and procedures exist for the Information

Technology department.

Effect of Condition: Because formal procedures are not documented, there is no way for

the City's management to know if their expectations are communicated consistently to all employees. Also, without formal policies and procedures in place, there is no way to ensure that adequate safe guards are in place to ensure the security of the City's

data and information technology systems.

Recommendation: City Management should work with the Information Technology

department to perform a risk assessment of the current IT environment of the City. Then City Management should develop and approve a set of formal policies and procedures that will address any

risks identified.

Management's Response: Management is aware of this condition and is currently in the process

of working with city administrators to create official policies and

procedures.

Contact Person Responsible

for Corrective Action: Karen Kirby, IT Program Manager

Edena Atmore, Managing Director of Financial Services

Anticipated Completion Date: August 31, 2013

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2012

Finding 2011-1:

Condition: Many of the decentralized functions of the City such as Parks and

Leisure, Municipal Court, and Utilities operate in systems that are manually interfaced with the City's accounting system. There are currently no standard procedures in place to ensure that the activity recorded in these decentralized functions is being properly recorded

in the City's general ledger.

<u>Criteria</u>: Reconciliation procedures are independent checks of the accounting

system to identify errors and misrepresentations. Reconciliations should take place after the fact, by an individual who is not directly involved with the transaction or task being verified. Through reconciliation procedures, management can assess the performance of individuals, the integrity of the transaction processing system, and the

correctness of the data contained in accounting records.

<u>Cause of Condition</u>: Internal controls are currently inadequate to ensure that the activity

recorded in these decentralized systems is reconciled to the activity

recorded in the City's general ledger.

Effect of Condition: A weak internal control structure can make it possible for errors or

other misrepresentations to go long periods of time without being

detected.

<u>Recommendation</u>: Controls need to be put in to place that will ensure that the activities

occurring at Parks and Leisure, Municipal Court, and Utilities are reconciled to the general ledger balance on at least a monthly basis with any differences investigated and corrected in a timely manner.

Management's Response: Management is aware of this condition and is currently in the process

of restructuring the various processes in these departments to be able

to reconcile the general ledger to their reporting systems.

<u>Current Status</u>: See current year finding 2012-1.

(continued)

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued) SEPTEMBER 30, 2012

Finding 2011-2:

<u>Condition</u>: The payroll clerk is able to process payroll, print payroll checks, and

edit employee information such as pay rates in the system.

Criteria: An essential element of any preventative control system is to have

segregation of duties established in such a manner that no single individual could perpetrate an error and conceal it without it being

discovered on a timely basis.

Cause of Condition: There are inadequate controls over segregation of duties within the

payroll processing function.

Effect of Condition: There is a greater risk that errors or misappropriation could go

undetected for an extended period of time.

Recommendation: Access to modify pay rates and other employee information should be

limited to areas like Human Resources which are not involved in the processing of payroll. Additionally, reconciliation and review procedures should be put into place after payroll is processed to ensure that what was paid agrees to the underlying time records

entered by employees.

Management's Response: As of March 2012, the functions of the payroll clerk have been

separated. The editing of employee data is in the Human Resources Department and the processing of checks is in the Financial Services Department. Procedures and controls have been established, along

with backup procedures.

Current Status: See current year finding 2012-2.

